

**AUDIT REPORT OF
FAIRMONT, WEST VIRGINIA
A CLASS II MUNICIPALITY IN MARION COUNTY
For the Fiscal Year Ended June 30, 2012**

**AUDIT REPORT OF
THE MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

This audit has been conducted pursuant to the authority and duty of the State Auditor as Chief Inspector and Supervisor of Public Offices to conduct an annual inspection of all political subdivisions of the State of West Virginia and any agency created by these subdivisions. This power is granted by West Virginia Code §6-9-1 et seq.

**MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FUNDS INCLUDED IN REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

GOVERNMENTAL FUND TYPES

MAJOR FUNDS

General
Coal Severance Tax

PROPRIETARY FUND TYPE

MAJOR FUNDS

Water
Building Commission
Parking
Park Commission

NONMAJOR FUNDS

Special Revenue Funds

Bureau of Justice
Boards and Commissions
Workers Compensation
Police Investigation
Urban Renewal Authority
Economic Development Grant

FIDUCIARY FUND TYPES

Pension Trust Funds

Policemen's Pension and Relief
Firemen's Pension and Relief

COMPONENT UNITS

Discretely Presented
Sanitary Board

**MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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INTRODUCTORY SECTION

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
MUNICIPAL OFFICIALS
For the Fiscal Year Ended June 30, 2012

| OFFICE | NAME | TERM |
|-------------------|--------------------|---------------------|
| <u>Elective</u> | | |
| Mayor: | William Burdick | 01-01-09 / 12-31-12 |
| Council Members: | Robert Gribben | 01-01-11 / 12-31-14 |
| | Robert Sapp | 01-01-09 / 12-31-12 |
| | Deborah Seifrit | 01-01-11 / 12-31-14 |
| | William Burdick | 01-01-09 / 12-31-12 |
| | Chuck Warner | 01-01-11 / 12-31-14 |
| | Daniel Weber | 01-01-09 / 12-31-12 |
| | Robert Garcia | 01-01-09 / 12-31-12 |
| | Robin Smith | 01-01-11 / 12-31-14 |
| | Ronald J. Straight | 01-01-11 / 12-31-14 |
| <u>Appointive</u> | | |
| Finance Director: | Eileen Layman | |

FINANCIAL SECTION



State of West Virginia

Glen B. Gainer III
State Auditor and
Chief Inspector

Stuart T. Stickel, CPA
Deputy Chief Inspector

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council
Municipality of Fairmont
Fairmont, West Virginia 26554

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Fairmont, West Virginia (the Municipality), as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the entity's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Fairmont, West Virginia, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and Coal Severance Tax Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2013, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Schedules of Funding Progress and the Schedules of Employer Contributions for the Police and Fire Pension Relief Funds on pages 56-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Municipality has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The Schedule of Rate Covenant Compliance, and the Schedule of Expenditures of Federal Awards as required by the Office of Management Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Rate Covenant Compliance, the discretely presented component unit financial statements for the Sanitary Board, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The introductory section listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Glen B. Gainer III", with a stylized flourish at the end.

Glen B. Gainer III
West Virginia State Auditor

February 27, 2013

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF NET ASSETS
June 30, 2012

| | Primary Government | | | Component |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | Governmental | Business-type | | Unit |
| | Activities | Activities | Total | Sanitary |
| | | | | Board |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 2,997,440 | \$ 734,885 | \$ 3,732,325 | \$ 1,035,094 |
| Investments | 3,445,832 | 209,670 | 3,655,502 | -- |
| Receivables: | | | | |
| Accounts | 404,392 | 734,639 | 1,139,031 | 406,187 |
| Accrued interest | 2,264 | 1,159 | 3,423 | -- |
| Taxes | 1,806,470 | -- | 1,806,470 | -- |
| Other | 93,384 | 92,630 | 186,014 | 8,349 |
| Notes | -- | 109,116 | 109,116 | -- |
| Grants | 169,419 | -- | 169,419 | -- |
| Internal balances | 535,450 | (535,450) | -- | -- |
| Due from: | | | | |
| Primary government | -- | -- | -- | 36,967 |
| Inventory, at cost | 9,631 | 169,343 | 178,974 | 29,741 |
| Prepaid expenses | 74,186 | 11,988 | 86,174 | 6,969 |
| Total current assets | <u>9,538,468</u> | <u>1,527,980</u> | <u>11,066,448</u> | <u>1,523,307</u> |
| Noncurrent assets: | | | | |
| Regular account | -- | 1,931,110 | 1,931,110 | 52,398 |
| Reserve account | -- | 2,910,775 | 2,910,775 | 131,609 |
| Renewal and replacement | -- | 2,105,902 | 2,105,902 | 784,731 |
| Reserve for other postemployment | | | | |
| benefits payable | 2,377,496 | 939,152 | 3,316,648 | 293,419 |
| Reserve for construction | -- | 124,103 | 124,103 | -- |
| Customer deposits | 19,118 | 123,368 | 142,486 | -- |
| Capital assets: | | | | |
| Nondepreciable: | | | | |
| Land | 149,635 | 972,387 | 1,122,022 | 341,873 |
| Construction in progress | -- | 1,149,687 | 1,149,687 | -- |
| Depreciable: | | | | |
| Land Improvements | 535,838 | -- | 535,838 | -- |
| Buildings | 963,381 | 4,117,049 | 5,080,430 | -- |
| Structures and improvements | -- | 21,266,212 | 21,266,212 | 276,399 |
| Infrastructure | 25,508,487 | -- | 25,508,487 | -- |
| Transmission and distribution | -- | 44,018,513 | 44,018,513 | 36,977,669 |
| Machinery and equipment | 1,441,511 | 8,583,625 | 10,025,136 | 3,801,763 |
| Building improvements | 135,051 | -- | 135,051 | -- |
| Office furniture and equipment | 513,418 | -- | 513,418 | -- |
| Vehicles | 4,292,691 | -- | 4,292,691 | -- |
| Less: accumulated depreciation | (27,332,811) | (24,881,080) | (52,213,891) | (20,793,572) |
| Unamortized bond issue costs | -- | -- | -- | 41,904 |
| Unamortized bond discount | -- | 354,610 | 354,610 | -- |
| Total noncurrent assets | <u>8,603,815</u> | <u>63,715,413</u> | <u>72,319,228</u> | <u>21,908,193</u> |
| Total assets | <u>\$ 18,142,283</u> | <u>\$ 65,243,393</u> | <u>\$ 83,385,676</u> | <u>\$ 23,431,500</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF NET ASSETS
June 30, 2012

| | Primary Government | | | Component Unit |
|---|-------------------------|--------------------------|----------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total | Sanitary Board |
| LIABILITIES | | | | |
| Current liabilities payable from current assets: | | | | |
| Accounts payable | \$ 291,069 | \$ 1,535,610 | \$ 1,826,679 | \$ 101,358 |
| Claims payable | 167,657 | -- | 167,657 | -- |
| Other accrued expenses | 278,989 | 55,437 | 334,426 | 57,291 |
| Accrued interest payable | -- | 817,138 | 817,138 | -- |
| Compensated absences payable | 236,895 | 101,296 | 338,191 | 74,612 |
| Other postemployment benefits payable | 2,843,433 | 824,457 | 3,667,890 | 639,831 |
| Customer deposits | 18,680 | 121,250 | 139,930 | -- |
| Due to: | | | | |
| Primary government | -- | 36,967 | 36,967 | -- |
| Deferred revenues: | | | | |
| Customer advances | -- | -- | -- | 148,197 |
| Unearned revenue | 110,946 | -- | 110,946 | -- |
| Total current liabilities | 3,947,669 | 3,492,155 | 7,439,824 | 1,021,289 |
| Noncurrent liabilities due within one year: | | | | |
| Bonds payable | -- | 1,625,584 | 1,625,584 | 260,761 |
| Notes payable | -- | 239,022 | 239,022 | -- |
| Leases payable | 193,729 | 169,523 | 363,252 | -- |
| Noncurrent liabilities due in more than one year: | | | | |
| Bonds payable | -- | 41,187,888 | 41,187,888 | 4,848,335 |
| Notes payable | -- | 492,642 | 492,642 | -- |
| Leases payable | 494,672 | -- | 494,672 | -- |
| Net pension obligation payable | 14,153,004 | -- | 14,153,004 | -- |
| Compensated absences payable | 929,628 | 156,716 | 1,086,344 | 140,294 |
| Total noncurrent liabilities | 15,771,033 | 43,871,375 | 59,642,408 | 5,249,390 |
| Total liabilities | 19,718,702 | 47,363,530 | 67,082,232 | 6,270,679 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 5,518,800 | 11,511,734 | 17,030,534 | 15,495,036 |
| Restricted for: | | | | |
| Debt service | -- | 7,071,890 | 7,071,890 | 968,738 |
| Customer deposits | -- | 123,368 | 123,368 | -- |
| Other postemployment benefits | -- | 939,152 | 939,152 | 293,419 |
| Unrestricted | (7,095,219) | (1,766,281) | (8,861,500) | 403,628 |
| Total net assets | (1,576,419) | 17,879,863 | 16,303,444 | 17,160,821 |
| Total liabilities and net assets | \$ 18,142,283 | \$ 65,243,393 | \$ 83,385,676 | \$ 23,431,500 |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

| Functions / Programs | Program Revenues | | | Net (Expense) Revenues and Changes in Net Assets | | | Component Unit Sanitary Board |
|--------------------------------------|------------------|----------------------------|--|---|-----------------------------|---------------|--|
| | Expenses | Charges for Services | Capital Grants and Contributions | Primary Government | | | |
| | | | | Governmental Activities | Business-type Activities | Total | |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 1,885,830 | \$ 3,624,493 | \$ -- | \$ 1,738,663 | \$ -- | \$ 1,738,663 | \$ -- |
| Public safety | 7,797,357 | 464,900 | 174,580 | (7,157,877) | -- | (7,157,877) | -- |
| Streets and transportation | 765,204 | -- | -- | (765,204) | -- | (765,204) | -- |
| Health and sanitation | 1,280,354 | -- | -- | (1,280,354) | -- | (1,280,354) | -- |
| Culture and recreation | 153,459 | -- | -- | (153,459) | -- | (153,459) | -- |
| Interest on long-term debt | 123,215 | -- | -- | (123,215) | -- | (123,215) | -- |
| Social services | 1,863 | -- | -- | (1,863) | -- | (1,863) | -- |
| Economic development | 1,513,439 | -- | 569,695 | (943,744) | -- | (943,744) | -- |
| Total governmental activities | 13,520,721 | 4,089,393 | 744,275 | (8,687,053) | -- | (8,687,053) | -- |
| Business-type activities: | | | | | | | |
| Water | 7,483,130 | 8,694,126 | -- | -- | 1,210,996 | 1,210,996 | -- |
| Building Commission | 466,658 | 100 | -- | -- | (466,558) | (466,558) | -- |
| Parking | 91,804 | 137,446 | -- | -- | 45,642 | 45,642 | -- |
| Park Commission | 25,574 | 2,100 | 1,670 | -- | (21,804) | (21,804) | -- |
| Total business-type activities | 8,067,166 | 8,833,772 | 1,670 | -- | 768,276 | 768,276 | -- |
| Total primary government | \$ 21,587,887 | \$ 12,923,165 | \$ 745,945 | (8,687,053) | 768,276 | (7,918,777) | -- |
| Component unit: | | | | | | | |
| Sanitary Board | 4,495,433 | 4,658,758 | -- | -- | -- | -- | 163,325 |
| Total component unit | \$ 4,495,433 | \$ 4,658,758 | \$ -- | -- | -- | -- | 163,325 |
| General revenues: | | | | | | | |
| Ad valorem property taxes | | | | 1,878,672 | -- | 1,878,672 | -- |
| Business & occupation tax | | | | 6,132,593 | -- | 6,132,593 | -- |
| Alcoholic beverages tax | | | | 184,250 | -- | 184,250 | -- |
| Utility services tax | | | | 968,461 | -- | 968,461 | -- |
| Hotel occupancy tax | | | | 55,546 | -- | 55,546 | -- |
| Animal tax | | | | 4,874 | -- | 4,874 | -- |
| Gas and oil severance tax | | | | 18,478 | -- | 18,478 | -- |
| Other taxes | | | | 117,748 | -- | 117,748 | -- |
| Coal severance tax | | | | 99,098 | -- | 99,098 | -- |
| Unrestricted investment earnings | | | | 249,580 | 282,821 | 532,401 | 5,820 |
| Refunds | | | | 264,908 | -- | 264,908 | -- |
| Reimbursement | | | | 14,880 | -- | 14,880 | -- |
| Transfers | | | | (405,004) | 405,004 | -- | -- |
| Total general revenues and transfers | | | | 9,584,084 | 687,825 | 10,271,909 | 5,820 |
| Change in net assets | | | | 897,031 | 1,456,101 | 2,353,132 | 169,145 |
| Net assets - beginning (Note IV-I) | | | | (2,473,450) | 16,423,762 | 13,950,312 | 16,991,676 |
| Net assets - ending | | | | \$ (1,576,419) | \$ 17,879,863 | \$ 16,303,444 | \$ 17,160,821 |

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

| | General | Coal Severance Tax | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|----------------------|--------------------------|---|--------------------------------|
| ASSETS | | | | |
| Current: | | | | |
| Cash and cash equivalents | \$ 2,635,820 | \$ 81,291 | \$ 280,329 | \$ 2,997,440 |
| Investments | 2,056,234 | -- | 1,389,598 | 3,445,832 |
| Receivables: | | | | |
| Taxes | 1,806,470 | -- | -- | 1,806,470 |
| Accounts | 404,392 | -- | -- | 404,392 |
| Grants | 41,445 | -- | 127,974 | 169,419 |
| Other | 93,384 | -- | -- | 93,384 |
| Accrued interest | 1,371 | -- | 893 | 2,264 |
| Due from: | | | | |
| Other funds | 560,137 | -- | -- | 560,137 |
| Inventory, at cost | 9,631 | -- | -- | 9,631 |
| Prepaid expenses | 74,186 | -- | -- | 74,186 |
| Restricted cash | 19,118 | -- | -- | 19,118 |
| Reserve for other postemployment benefits payable | 2,377,496 | -- | -- | 2,377,496 |
| Total assets | <u>\$ 10,079,684</u> | <u>\$ 81,291</u> | <u>\$ 1,798,794</u> | <u>\$ 11,959,769</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | 179,245 | -- | 111,824 | 291,069 |
| Refunds payable | -- | -- | 167,657 | 167,657 |
| Compensated absences payable | 236,895 | -- | -- | 236,895 |
| Other accrued expenses | 278,989 | -- | -- | 278,989 |
| Other postemployment benefits payable | 2,843,433 | -- | -- | 2,843,433 |
| Due to: | | | | |
| Other funds | -- | -- | 24,687 | 24,687 |
| Deferred revenues: | | | | |
| Unearned revenue | 110,946 | -- | -- | 110,946 |
| Taxes | 185,585 | -- | -- | 185,585 |
| Customer deposits | 18,680 | -- | -- | 18,680 |
| Total liabilities | <u>3,853,773</u> | <u>--</u> | <u>304,168</u> | <u>4,157,941</u> |
| Fund balances: | | | | |
| Nonspendable | 83,817 | -- | -- | 83,817 |
| Restricted | 649,391 | -- | 27,424 | 676,815 |
| Committed | 303,049 | 81,291 | 1,206,767 | 1,591,107 |
| Assigned | 2,701,992 | -- | 260,435 | 2,962,427 |
| Unassigned | 2,487,662 | -- | -- | 2,487,662 |
| Total fund balances | <u>6,225,911</u> | <u>81,291</u> | <u>1,494,626</u> | <u>7,801,828</u> |
| Total liabilities and fund balances | <u>\$ 10,079,684</u> | <u>\$ 81,291</u> | <u>\$ 1,798,794</u> | <u>\$ 11,959,769</u> |

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2012

| | |
|--|--------------|
| Total fund balances on the governmental fund's balance sheet | \$ 7,801,828 |
|--|--------------|

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|---|-----------|
| Capital assets used in governmental activities are not financial resources and therefore not reported in the funds (Note IV. C.). | 6,207,201 |
|---|-----------|

| | |
|---|---------|
| Certain revenues are not available to fund current year expenditures and therefore are deferred in the funds (Note IV. B.). | 185,585 |
|---|---------|

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note IV. F.).

| | |
|------------------------|----------------------|
| Leases payable | (688,401) |
| Compensated absences | (929,628) |
| Net pension obligation | <u>(14,153,004)</u> |

| | |
|---------------------------------------|-------------------------------|
| Net assets of governmental activities | <u><u>\$ (1,576,419)</u></u> |
|---------------------------------------|-------------------------------|

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

| | <u>General</u> | <u>Coal Severance Tax</u> | <u>Other Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------|-----------------------------------|--|---|
| REVENUES | | | | |
| Taxes: | | | | |
| Ad valorem property taxes | \$ 1,894,111 | \$ -- | \$ -- | \$ 1,894,111 |
| Business & occupation tax | 6,132,593 | -- | -- | 6,132,593 |
| Alcoholic beverages tax | 184,250 | -- | -- | 184,250 |
| Utility services tax | 968,461 | -- | -- | 968,461 |
| Hotel occupancy tax | 55,546 | -- | -- | 55,546 |
| Animal tax | 4,874 | -- | -- | 4,874 |
| Gas and oil severance tax | 18,478 | -- | -- | 18,478 |
| Other taxes | 117,748 | -- | -- | 117,748 |
| Coal severance tax | -- | 99,098 | -- | 99,098 |
| Licenses and permits | 170,445 | -- | -- | 170,445 |
| Intergovernmental: | | | | |
| Federal | 115,141 | -- | 329,623 | 444,764 |
| State | 45,833 | -- | 63,469 | 109,302 |
| Charges for services | 3,454,048 | -- | -- | 3,454,048 |
| Fines and forfeits | 464,900 | -- | -- | 464,900 |
| Interest and investment earnings | 143,754 | 15 | 105,811 | 249,580 |
| Refunds | 264,908 | -- | -- | 264,908 |
| Reimbursements | 14,880 | -- | -- | 14,880 |
| Contributions and donations | 41,647 | -- | 148,562 | 190,209 |
| Miscellaneous | 61,862 | -- | -- | 61,862 |
| Total revenues | <u>14,153,479</u> | <u>99,113</u> | <u>647,465</u> | <u>14,900,057</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,754,144 | -- | 100,095 | 1,854,239 |
| Public safety | 6,543,465 | -- | 24,191 | 6,567,656 |
| Streets and transportation | 1,087,322 | 53,301 | -- | 1,140,623 |
| Health and sanitation | 1,280,354 | -- | -- | 1,280,354 |
| Culture and recreation | 150,236 | -- | -- | 150,236 |
| Benefits paid | -- | -- | 123,215 | 123,215 |
| Social services | 1,863 | -- | -- | 1,863 |
| Economic development | 1,159,284 | -- | 354,155 | 1,513,439 |
| Debt service: | | | | |
| Principal | 294,232 | -- | -- | 294,232 |
| Interest | 38,039 | -- | -- | 38,039 |
| Total expenditures | <u>12,308,939</u> | <u>53,301</u> | <u>601,656</u> | <u>12,963,896</u> |
| Excess (deficiency) of revenues over expenditures | 1,844,540 | 45,812 | 45,809 | 1,936,161 |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

| | <u>General</u> | <u>Coal Severance Tax</u> | <u>Other Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|-----------------------------------|--|---|
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | \$ 70,548 | \$ -- | \$ 5,636 | \$ 76,184 |
| Transfers (out) | <u>(405,070)</u> | <u>--</u> | <u>(76,118)</u> | <u>(481,188)</u> |
| Total other financing sources (uses) | <u>(334,522)</u> | <u>--</u> | <u>(70,482)</u> | <u>(405,004)</u> |
| Net change in fund balances | 1,510,018 | 45,812 | (24,673) | 1,531,157 |
| Fund balances - beginning (Note IV-D) | <u>4,715,893</u> | <u>35,479</u> | <u>1,519,299</u> | <u>6,270,671</u> |
| Fund balances - ending | <u>\$ 6,225,911</u> | <u>\$ 81,291</u> | <u>\$ 1,494,626</u> | <u>\$ 7,801,828</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|--------------------------|
| Net change in fund balances - total governmental funds | \$ 1,531,157 |
| Capital outlays are reported as an expenditure in the governmental funds, but are considered an asset at the government-wide level. This is the amount of capital assets that were purchased during the fiscal year (Note IV. C.). | 1,175,295 |
| Capital outlays are reported as an expenditure in the governmental funds. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense charged during the year (Note IV. C.). | (898,805) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the difference between the prior year taxes deferred revenue of \$201,024 and the current year amount of \$185,585. (Note IV. B.) | (15,439) |
| The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | |
| Payments of leases (Note IV. F.). | 307,115 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (Note IV. G.). | |
| Change in net pension obligation | (1,222,294) |
| Change in compensated absences payable | <u>20,002</u> |
| Change in net assets of governmental activities | \$ <u><u>897,031</u></u> |

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
For the Fiscal Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Adjustments</u> | <u>Actual</u> | <u>Variance with</u> |
|--|-------------------------|-------------------|-------------------|---------------------|-------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Modified</u> | <u>Budget</u> | <u>Budget</u> | <u>Final Budget</u> |
| | | | <u>Accrual</u> | <u>Basis</u> | <u>Basis</u> | <u>Positive</u> |
| | | | <u>Basis</u> | | | <u>(Negative)</u> |
| REVENUES | | | | | | |
| Taxes: | | | | | | |
| Ad valorem property taxes | \$ 1,865,042 | \$ 1,865,042 | \$ 1,894,111 | \$ -- | \$ 1,894,111 | \$ 29,069 |
| Business & occupation tax | 4,937,600 | 4,937,600 | 6,132,593 | -- | 6,132,593 | 1,194,993 |
| Alcoholic beverages tax | 130,000 | 130,000 | 184,250 | -- | 184,250 | 54,250 |
| Utility services tax | 870,000 | 870,000 | 968,461 | -- | 968,461 | 98,461 |
| Hotel occupancy tax | 40,000 | 50,000 | 55,546 | -- | 55,546 | 5,546 |
| Animal tax | 4,500 | 4,500 | 4,874 | -- | 4,874 | 374 |
| Gas and oil severance tax | 17,000 | 17,000 | 18,478 | -- | 18,478 | 1,478 |
| Other taxes | 99,000 | 99,000 | 117,748 | -- | 117,748 | 18,748 |
| Licenses and permits | 213,000 | 223,000 | 170,445 | -- | 170,445 | (52,555) |
| Intergovernmental: | | | | | | |
| Federal | 104,724 | 104,724 | 115,141 | -- | 115,141 | 10,417 |
| State | 48,000 | 48,000 | 45,833 | -- | 45,833 | (2,167) |
| Charges for services | 2,398,935 | 3,495,285 | 3,454,048 | -- | 3,454,048 | (41,237) |
| Fines and forfeits | 195,000 | 195,000 | 464,900 | (277,064) | 187,836 | (7,164) |
| Interest earnings | 2,000 | 2,000 | 143,754 | (5,957) | 137,797 | 135,797 |
| Refunds | 280,000 | 280,000 | 264,908 | -- | 264,908 | (15,092) |
| Reimbursements | -- | 21,200 | 14,880 | -- | 14,880 | (6,320) |
| IRP fees | 14,000 | 14,000 | -- | -- | -- | (14,000) |
| Contributions and donations | -- | 26,674 | 41,647 | (41,647) | -- | (26,674) |
| Miscellaneous | 7,758 | 33,371 | 61,862 | -- | 61,862 | 28,491 |
| Total revenues | 11,226,559 | 12,416,396 | 14,153,479 | (324,668) | 13,828,811 | 1,412,415 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government | 2,277,689 | 3,414,091 | 1,754,144 | (1,184) | 1,752,960 | 1,661,131 |
| Public safety | 6,408,009 | 6,553,299 | 6,543,465 | -- | 6,543,465 | 9,834 |
| Streets and transportation | 1,207,607 | 1,267,968 | 1,087,322 | -- | 1,087,322 | 180,646 |
| Health and sanitation | 1,204,065 | 1,286,810 | 1,280,354 | -- | 1,280,354 | 6,456 |
| Culture and recreation | 126,834 | 150,731 | 150,236 | -- | 150,236 | 495 |
| Social services | 2,355 | 2,355 | 1,863 | -- | 1,863 | 492 |
| Economic development | -- | -- | 1,159,284 | (1,159,284) | -- | -- |
| Debt service: | | | | | | |
| Principal | -- | -- | 294,232 | (294,232) | -- | -- |
| Interest | -- | -- | 38,039 | (38,039) | -- | -- |
| Total expenditures | 11,226,559 | 12,675,254 | 12,308,939 | (1,492,739) | 10,816,200 | 1,859,054 |
| Excess (deficiency) of revenues | | | | | | |
| over expenditures | -- | (258,858) | 1,844,540 | 1,168,071 | 3,012,611 | 3,271,469 |

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
For the Fiscal Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Adjustments</u> | <u>Actual</u> | <u>Variance with</u> |
|---|-------------------------|----------------|------------------|--------------------|------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Modified</u> | <u>Budget</u> | <u>Budget</u> | <u>Final Budget</u> |
| | | | <u>Accrual</u> | <u>Basis</u> | <u>Basis</u> | <u>Positive</u> |
| | | | <u>Basis</u> | | | <u>(Negative)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | \$ -- | \$ -- | \$ 70,548 | \$ (70,548) | \$ -- | \$ -- |
| Transfers (out) | -- | (500,000) | (405,070) | -- | (405,070) | 94,930 |
| Total other financing sources (uses) | -- | (500,000) | (334,522) | (70,548) | (405,070) | 94,930 |
| Net change in fund balance | -- | (758,858) | 1,510,018 | 1,097,523 | 2,607,541 | 3,366,399 |
| Fund balance - beginning (Note IV-I) | -- | 758,858 | 4,715,893 | (1,801,222) | 2,914,671 | 2,155,813 |
| Fund balance - ending | \$ -- | \$ -- | \$ 6,225,911 | \$ (703,699) | \$ 5,522,212 | \$ 5,522,212 |

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - COAL SEVERANCE TAX FUND
For the Fiscal Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|----------------------------|-------------------------|----------------|------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>Final Budget</u> |
| | | | <u>Budget</u> | <u>Positive</u> |
| | | | <u>Basis</u> | <u>(Negative)</u> |
| REVENUES | | | | |
| Taxes: | | | | |
| Coal severance tax | \$ 90,000 | \$ 97,500 | \$ 99,098 | \$ 1,598 |
| Interest earnings | 20 | 20 | 15 | (5) |
| Total revenues | <u>90,020</u> | <u>97,520</u> | <u>99,113</u> | <u>1,593</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Streets and transportation | <u>90,020</u> | <u>132,998</u> | <u>53,301</u> | <u>79,697</u> |
| Total expenditures | <u>90,020</u> | <u>132,998</u> | <u>53,301</u> | <u>79,697</u> |
| Net change in fund balance | -- | (35,478) | 45,812 | 81,290 |
| Fund balance - beginning | <u>--</u> | <u>35,478</u> | <u>35,479</u> | <u>1</u> |
| Fund balance - ending | <u>\$ --</u> | <u>\$ --</u> | <u>\$ 81,291</u> | <u>\$ 81,291</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2012

| | Business-type Activities Enterprise Funds | | | | |
|--|--|---------------------|------------------------|--------------------|----------------------|
| | Water | | Building Commission | | Totals |
| | | | Parking | Park Commission | |
| ASSETS | | | | | |
| Current: | | | | | |
| Cash and cash equivalents | \$ 564,711 | \$ 46,786 | \$ 119,256 | \$ 4,132 | \$ 734,885 |
| Investments | 12,813 | 196,857 | -- | -- | 209,670 |
| Receivables: | | | | | |
| Accounts | 724,801 | -- | 9,838 | -- | 734,639 |
| Accrued interest | 774 | 385 | -- | -- | 1,159 |
| Other | 90,960 | -- | -- | 1,670 | 92,630 |
| Notes | -- | 109,116 | -- | -- | 109,116 |
| Inventory, at cost | 169,343 | -- | -- | -- | 169,343 |
| Prepaid expenses | 5,758 | -- | 6,230 | -- | 11,988 |
| Total current assets | <u>1,569,160</u> | <u>353,144</u> | <u>135,324</u> | <u>5,802</u> | <u>2,063,430</u> |
| Noncurrent assets: | | | | | |
| Restricted assets: | | | | | |
| Regular account | 1,931,110 | -- | -- | -- | 1,931,110 |
| Reserve account | 2,910,775 | -- | -- | -- | 2,910,775 |
| Renewal and replacement | 2,105,902 | -- | -- | -- | 2,105,902 |
| Reserve for other post-employment benefits | 939,152 | -- | -- | -- | 939,152 |
| Reserve for construction | 124,103 | -- | -- | -- | 124,103 |
| Customer deposits | 123,368 | -- | -- | -- | 123,368 |
| Total restricted assets | <u>8,134,410</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>8,134,410</u> |
| Capital assets: | | | | | |
| Nondepreciable: | | | | | |
| Land | 227,647 | 744,740 | -- | -- | 972,387 |
| Construction in progress | 1,149,687 | -- | -- | -- | 1,149,687 |
| Depreciable: | | | | | |
| Buildings | -- | 3,770,144 | 137,440 | 209,465 | 4,117,049 |
| Structures and improvements | 16,642,958 | 4,607,106 | 16,148 | -- | 21,266,212 |
| Transmission and distribution | 44,018,513 | -- | -- | -- | 44,018,513 |
| Machinery and equipment | 8,413,006 | 16,193 | 154,426 | -- | 8,583,625 |
| Less: accumulated depreciation | <u>(22,967,730)</u> | <u>(1,675,686)</u> | <u>(163,918)</u> | <u>(73,746)</u> | <u>(24,881,080)</u> |
| Total capital assets (net of accumulated depreciation) | <u>47,484,081</u> | <u>7,462,497</u> | <u>144,096</u> | <u>135,719</u> | <u>55,226,393</u> |
| Other debits: | | | | | |
| Unamortized bond discount | 354,610 | -- | -- | -- | 354,610 |
| Total other debits | <u>354,610</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>354,610</u> |
| Total noncurrent assets | <u>55,973,101</u> | <u>7,462,497</u> | <u>144,096</u> | <u>135,719</u> | <u>63,715,413</u> |
| Total assets | <u>\$ 57,542,261</u> | <u>\$ 7,815,641</u> | <u>\$ 279,420</u> | <u>\$ 141,521</u> | <u>\$ 65,778,843</u> |

See accompanying notes to the financial statements. 16

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2012

| | Business-type Activities | | | | |
|--|--------------------------|------------------------|----------------|--------------------|-------------------|
| | Enterprise Funds | | | | |
| | Water | Building Commission | Parking | Park Commission | Totals |
| LIABILITIES | | | | | |
| Current liabilities payable from current assets: | | | | | |
| Accounts payable | \$ 1,533,341 | \$ -- | \$ 153 | \$ 2,116 | \$ 1,535,610 |
| Other accrued expenses | 54,974 | -- | 463 | -- | 55,437 |
| Other postemployment benefits payable | 824,457 | -- | -- | -- | 824,457 |
| Compensated absences payable | 99,692 | -- | 1,604 | -- | 101,296 |
| Customer deposits | 121,250 | -- | -- | -- | 121,250 |
| Accrued revenue bond/note interest payable | 780,504 | 36,634 | -- | -- | 817,138 |
| Due to: | | | | | |
| Component unit | 36,967 | -- | -- | -- | 36,967 |
| Other funds | 534,420 | -- | 1,030 | -- | 535,450 |
| Bonds payable | 1,403,309 | 222,275 | -- | -- | 1,625,584 |
| Notes payable | 139,022 | 100,000 | -- | -- | 239,022 |
| Leases payable | 169,523 | -- | -- | -- | 169,523 |
| Total current liabilities payable from current assets | 5,697,459 | 358,909 | 3,250 | 2,116 | 6,061,734 |
| Noncurrent liabilities | | | | | |
| Bonds payable | 37,341,290 | 3,846,598 | -- | -- | 41,187,888 |
| Notes payable | 492,642 | -- | -- | -- | 492,642 |
| Compensated absences payable | 156,716 | -- | -- | -- | 156,716 |
| Total noncurrent liabilities | 37,990,648 | 3,846,598 | -- | -- | 41,837,246 |
| Total liabilities | 43,688,107 | 4,205,507 | 3,250 | 2,116 | 47,898,980 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 7,938,295 | 3,293,624 | 144,096 | 135,719 | 11,511,734 |
| Restricted for debt service | 7,071,890 | -- | -- | -- | 7,071,890 |
| Restricted for customer deposits | 123,368 | -- | -- | -- | 123,368 |
| Reserve for other postemployment benefits payable | 939,152 | -- | -- | -- | 939,152 |
| Unrestricted | (2,218,551) | 316,510 | 132,074 | 3,686 | (1,766,281) |
| Total net assets | 13,854,154 | 3,610,134 | 276,170 | 139,405 | 17,879,863 |
| Total liabilities and net assets | \$ 57,542,261 | \$ 7,815,641 | \$ 279,420 | \$ 141,521 | \$ 65,778,843 |

See accompanying notes to the financial statements. 17

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

| | Business-type Activities - Enterprise Funds | | | | |
|---|--|------------------------|------------|--------------------|---------------|
| | Water | Building Commission | Parking | Park Commission | Totals |
| Operating revenues: | | | | | |
| Sales and services to customers | \$ 8,475,662 | \$ 100 | \$ 137,446 | \$ 2,100 | \$ 8,615,308 |
| Miscellaneous | 218,464 | -- | -- | -- | 218,464 |
| Total revenues | 8,694,126 | 100 | 137,446 | 2,100 | 8,833,772 |
| Operating expenses: | | | | | |
| Personal services | 1,528,169 | -- | -- | -- | 1,528,169 |
| Administrative and general | 345,971 | 1,875 | 84,506 | 2,042 | 434,394 |
| Rents | 301,877 | -- | -- | -- | 301,877 |
| Bad debt expense | 1,037,605 | -- | -- | -- | 1,037,605 |
| Fuel and oil | 760,470 | -- | -- | -- | 760,470 |
| Materials and supplies | 22,066 | -- | -- | -- | 22,066 |
| Depreciation | 1,726,299 | 261,431 | 7,298 | 23,532 | 2,018,560 |
| Amortization | 48,543 | -- | -- | -- | 48,543 |
| Total operating expenses | 5,771,000 | 263,306 | 91,804 | 25,574 | 6,151,684 |
| Operating income (loss) | 2,923,126 | (263,206) | 45,642 | (23,474) | 2,682,088 |
| Nonoperating revenues (expenses): | | | | | |
| Interest revenue | -- | -- | 49 | -- | 49 |
| Investment earnings | 270,542 | 12,229 | -- | 1 | 282,772 |
| Gain (loss) on sale of capital assets | (38,844) | -- | -- | -- | (38,844) |
| Interest and fiscal charges | (1,673,286) | (203,352) | -- | -- | (1,876,638) |
| Total nonoperating revenues (expenses) | (1,441,588) | (191,123) | 49 | 1 | (1,632,661) |
| Income (loss) before operating transfers and contributions | 1,481,538 | (454,329) | 45,691 | (23,473) | 1,049,427 |
| Capital contributions | -- | -- | -- | 1,670 | 1,670 |
| Transfers in | -- | 408,788 | 178,761 | -- | 587,549 |
| Transfers (out) | -- | -- | (182,545) | -- | (182,545) |
| Change in net assets | 1,481,538 | (45,541) | 41,907 | (21,803) | 1,456,101 |
| Net assets at beginning of year (Note IV-I) | 12,372,616 | 3,655,675 | 234,263 | 161,208 | 16,423,762 |
| Net assets at end of year | \$ 13,854,154 | \$ 3,610,134 | \$ 276,170 | \$ 139,405 | \$ 17,879,863 |

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

| | Business-type Activities - Enterprise Funds | | | | |
|--|--|------------------------|-----------------------|--------------------|---------------------|
| | Water | Building Commission | Enterprise Parking | Park Commission | Totals |
| Cash flows from operating activities: | | | | | |
| Cash received from customers | \$ 8,530,227 | \$ 100 | \$ 132,849 | \$ 2,630 | \$ 8,665,806 |
| Cash paid for goods and services | (2,794,600) | (1,875) | (89,938) | (2,460) | (2,888,873) |
| Cash paid to employees | (1,267,682) | -- | -- | -- | (1,267,682) |
| Net cash provided (used) by operating activities | <u>4,467,945</u> | <u>(1,775)</u> | <u>42,911</u> | <u>170</u> | <u>4,509,251</u> |
| Cash flows from noncapital financing activities: | | | | | |
| Transfers in | -- | 408,788 | 178,761 | -- | 587,549 |
| Transfers (out) | -- | -- | (182,545) | -- | (182,545) |
| Net cash provided (used) by noncapital financing activities | <u>--</u> | <u>408,788</u> | <u>(3,784)</u> | <u>--</u> | <u>405,004</u> |
| Cash flows from capital and related financing activities: | | | | | |
| Proceeds from capital debt | 2,896,459 | -- | -- | -- | 2,896,459 |
| Capital contributions | -- | -- | -- | 1,670 | 1,670 |
| Purchases of capital assets | -- | (6,513) | (25,014) | (1,671) | (33,198) |
| Acquisition and construction of capital assets | (4,343,529) | -- | -- | -- | (4,343,529) |
| Principal paid on capital debt | (1,508,101) | (210,590) | -- | -- | (1,718,691) |
| Interest paid on capital debt | (1,699,448) | (197,934) | -- | -- | (1,897,382) |
| Net cash provided (used) by capital and related financing activities | <u>(4,654,619)</u> | <u>(415,037)</u> | <u>(25,014)</u> | <u>(1)</u> | <u>(5,094,671)</u> |
| Cash flows from investing activities: | | | | | |
| Proceeds from sales and maturities | | | | | |
| Interest received | <u>271,908</u> | <u>12,229</u> | <u>49</u> | <u>1</u> | <u>284,187</u> |
| Net cash provided (used) by investing activities | <u>271,908</u> | <u>12,229</u> | <u>49</u> | <u>1</u> | <u>284,187</u> |
| Net increase (decrease) in cash and cash equivalents | 85,234 | 4,205 | 14,162 | 170 | 103,771 |
| Cash and cash equivalents, July 1, 2011 (including \$6,231,351 in restricted accounts) | <u>8,626,700</u> | <u>239,438</u> | <u>105,094</u> | <u>3,962</u> | <u>8,975,194</u> |
| Cash and cash equivalents, June 30, 2012 (including \$8,134,410 in restricted accounts) | <u>\$ 8,711,934</u> | <u>\$ 243,643</u> | <u>\$ 119,256</u> | <u>\$ 4,132</u> | <u>\$ 9,078,965</u> |

See accompanying notes to the financial statements. 19

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

| | Business-type Activities - Enterprise Funds | | | | Totals |
|--|--|------------------------|-----------------------|--------------------|---------------------|
| | Water | Building Commission | Enterprise Parking | Park Commission | |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | |
| Operating income (loss) | \$ 2,923,126 | \$ (263,206) | \$ 45,642 | \$ (23,474) | \$ 2,682,088 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | |
| Depreciation expense | 1,726,299 | 261,431 | 7,298 | 23,532 | 2,018,560 |
| Amortization | 48,543 | -- | -- | -- | 48,543 |
| Decrease (increase) in accounts receivable | (135,181) | -- | (4,597) | -- | (139,778) |
| Decrease (increase) in grants receivable | (69,819) | -- | -- | 530 | (69,289) |
| Decrease (increase) in accrued interest | | | | | |
| Decrease (increase) in due from other | | | | | |
| Decrease (increase) in inventory | (3,986) | -- | -- | -- | (3,986) |
| Decrease (increase) in prepaid expenses | (5,758) | -- | (6,230) | -- | (11,988) |
| Increase (decrease) in due to other funds | (188,198) | -- | -- | -- | (188,198) |
| Increase (decrease) in accounts payable | (136,818) | -- | (100) | (418) | (137,336) |
| Increase (decrease) in customer deposits payable | 50,845 | -- | (1,168) | -- | 49,677 |
| Increase (decrease) in other postemployment benefits payable | 248,143 | -- | -- | -- | 248,143 |
| Increase (decrease) in other accrued expenses | (1,596) | -- | 462 | -- | (1,134) |
| Increase (decrease) in contracts payable | 12,345 | -- | 1,604 | -- | 13,949 |
| Net cash provided by operations | \$ 4,467,945 | \$ (1,775) | \$ 42,911 | \$ 170 | \$ 4,509,251 |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

| | <u>Pension Trust Funds</u> |
|--|------------------------------------|
| ASSETS | |
| Non-pooled cash | \$ <u>245,411</u> |
| Total cash | <u>245,411</u> |
| Investments, at fair value: | |
| Certificate of deposits | 478,332 |
| Mutual funds | 3,986,844 |
| Common stock | 10,887 |
| Preferred stock | 26,839 |
| Corporate bonds | <u>842,558</u> |
| Total investments | <u>5,345,460</u> |
| Receivables: | |
| Interest | 11,122 |
| Insurance tax | <u>5,384</u> |
| Total receivables | <u>16,506</u> |
| Total assets | \$ <u><u>5,607,377</u></u> |
| LIABILITIES | |
| Accounts payable | <u>169</u> |
| Total liabilities | <u>169</u> |
| NET ASSETS | |
| Net assets held in trust for pension benefits | \$ <u><u>5,607,208</u></u> |

(1) A schedule of funding progress for each plan is presented in the Required Supplementary Information section of this report.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

| | <u>Pension Trust Funds</u> |
|---|------------------------------------|
| ADDITIONS | |
| Contributions: | |
| Employer | \$ 1,278,529 |
| Plan members | 264,446 |
| Insurance premium surtax | <u>759,515</u> |
| Total contributions | <u>2,302,490</u> |
| Investment income: | |
| Net increase (decrease) in fair value of investments | (83,430) |
| Net gain (loss) on sale of investments | (1,864) |
| Interest and dividends | 187,245 |
| Miscellaneous | <u>30</u> |
| Net investment income | <u>101,981</u> |
| Total additions | <u>2,404,471</u> |
| DEDUCTIONS | |
| Benefits | 2,641,266 |
| Administrative expenses | <u>5,772</u> |
| Total deductions | <u>2,647,038</u> |
| Change in net assets | (242,567) |
| Net assets held in trust for pension benefits: | |
| Beginning of year | <u>5,849,775</u> |
| End of year | <u>\$ 5,607,208</u> |

(1) A schedule of funding progress for each plan is presented in the Required Supplementary Information section of this report.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Municipality of Fairmont, West Virginia (the Municipality), conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of significant accounting policies:

A. Reporting Entity

The Municipality of Fairmont is a municipal corporation governed by an elected mayor and nine-member council. The accompanying financial statements present the government and its component unit as required by generally accepted accounting principles.

The services provided by the government and accounted for within these financial statements include law enforcement for the Municipality, health and sanitation services, cultural and recreational programs, and other governmental services.

The accompanying financial statements present the government and its component unit as required by the accounting principles generally accepted in the United States. In determining whether to include a governmental department, agency, commission or organization as a component unit, the government must evaluate each entity as to whether they are legally separate and financially accountable based on the criteria set forth by the Governmental Accounting Standards Board (GASB). Legal separateness is evaluated on the basis of (1) its corporate name, (2) the right to sue and be sued and (3) the right to buy, sell or lease and mortgage property. Financial accountability is based on (1) the appointment of the governing authority and (2) the ability to impose will or (3) the providing of specific financial benefit or imposition of specific financial burden. Another factor to consider in this evaluation is whether an entity is fiscally dependent on the Municipality.

Blended Component Unit

The entity below is legally separate from the Municipality and meets GAAP criteria for component units. The entity is blended with the primary government because it provides services entirely or almost entirely to the Municipality.

The *Building Commission fund* serves the Municipality by providing facilities for the government. This fund leases these facilities to the government in accordance with lease agreements. This fund accounts for the debt services, receipts and expenses of the system. This fund is reported as a major proprietary fund.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Discretely Presented Component Unit

Discretely presented component units are entities which are legally separate from the Municipality, but are financially accountable to the Municipality, or whose relationship with the Municipality is such that exclusion would cause the Municipality's financial statements to be misleading or incomplete. Because of the nature of services they provide and the Municipality's ability to impose its will on them or a financial benefit/burden relationship exists, the following component units are discretely presented in accordance with GASB Statement No. 14 (as amended by GASB Statement No. 39). The discretely presented component units are presented on the government-wide statements.

The *Fairmont Sanitary Board* serves all the citizens of the Municipality of Fairmont and is governed by a three-member board comprised of the Mayor and two members of council. The rates for user charges and bond issuance authorizations are approved by the government's elected council.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Interest on general long-term debt liabilities is considered an indirect expense and is reported in the Statement of Activities as a separate line.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied and collectible. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, interest and special assessments are susceptible to accrual. Also, certain taxpayer-assessed revenues such as business and occupation and utility taxes are accrued as revenue at year end. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The government reports the following major governmental funds:

The *General fund* is the government's primary operating fund. It accounts for all financial sources of the general government, except those required to be accounted for in another fund.

The *Coal Severance Tax fund*, a special revenue fund, accounts for revenues and expenditures from a severance tax placed on coal that is distributed to West Virginia municipalities.

The government reports the following major proprietary funds:

The *Park Commission fund* serves the Municipality by providing park facilities to the public. This fund accounts for the receipts and expenses of operating these facilities.

The *Parking fund* serves the Municipality by providing parking facilities to the public. This fund accounts for the receipts and expenses of operating these parking facilities.

The *Water fund* serves the citizens of the Municipality of Fairmont by providing water services to the community. This fund accounts for the receipts and expenses of operating this facility. The rates for user charges and bond issuance authorizations are approved by the government's elected council.

The *Building Commission* is also a major proprietary fund, and is described in section A.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Additionally, the government reports the following fund types:

The *Pension Trust funds* account for the activities of the Public Safety Employees Retirement System, which accumulates resources for pension benefit payments to qualified public safety employees. These funds are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting.

The Municipality of Fairmont, West Virginia follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with GASB Pronouncements in both the government-wide and proprietary fund financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the water, building commission, park commission, and parking funds and the sanitary board is charges to customers for services. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Municipality of Fairmont, West Virginia's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of less than three months from the date of acquisition. For purposes of the Statement of Cash Flows, restricted assets may be considered cash equivalents based on liquidity.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Municipality reports its investments at fair value, except for non-participating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost, which approximates fair value. All investment income, including changes in fair value of investments, are recognized as revenue in the operating statement. Fair value is determined by quoted market prices.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of underlying securities. Cash deposits are reported at carrying amount, which reasonably estimates fair value. The composition of investments and fair values are presented in Note III.A.

State statutes authorize the government to invest in the State Investment Pool or the Municipal Bond Commission or to invest such funds in the following classes of securities: Obligations of the United States or any agency thereof, certificates of deposit (which mature in less than one year), general and direct obligations of the State of West Virginia; obligations of the federal mortgage association; indebtedness secured by first lien deeds of trust for property situated within this State if the payment is substantially insured or guaranteed by the federal government; pooled mortgage trusts (subject to limitations); indebtedness of any private corporation that is properly graded in the top three ratings, at the time of acquisition; interest earning deposits which are fully insured or collateralized; and mutual funds registered with the S.E.C. which have fund assets over three hundred million dollars.

State statute limitations concerning the aforementioned investments include the following: at no time can investment portfolios consist of more than seventy-five percent of the indebtedness of any private corporation nor can the portfolio have over twenty-five percent of its portfolio consisting of the indebtedness of a private corporation's debt which matures in less than one year; at no time may more than five percent of the portfolio be invested in securities issued by a single private corporation or association; and at no time can more than sixty percent of the portfolio be invested in equity mutual funds.

Municipal Pension Funds are governed as to type of investments by *West Virginia Code* §8-22-22. Pension funds are permitted to invest in all of the above mentioned types of investments with the exceptions of: (1) Direct and general obligations of the State and (2) Pooled mortgage trusts. Additionally, pension funds are permitted to invest funds in the following categories of investments: (1) Repurchase agreements and (2) Common stock, securities convertible into common stocks, or warrants and rights to purchase such securities. Pension funds have different rules concerning the purchase of marketable debt securities.

The following restrictions apply only to pension portfolios and are separate and distinct from the limitations mentioned above: (1) fixed income securities which are issued by one issuer (with the exception of the United States government) are not to exceed five percent of the total pension fund assets; and (2) at no time can the nonreal estate equity portion of the portfolio exceed seventy-five percent of the total portfolio.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

2. Receivables and Payables

Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables or payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balance outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Trade Receivables

All trade receivables are shown net of allowance for uncollectibles.

Property Tax Receivable

All current taxes assessed on real and personal property may be paid in two installments; the first installment is payable on September first of the year for which the assessment is made, and becomes delinquent on October first; the second installment is payable on the first day the following March and becomes delinquent on April first. Taxes paid on or before the date when they are payable, including both first and second installments, are subject to a discount of two and one-half percent. If the taxes are not paid on or before the date in which they become delinquent, including both first and second installments, interest at the rate of nine percent per annum is added from the date they become delinquent until the date they are paid.

All municipalities within the State are authorized to levy taxes not in excess of the following maximum levies per \$100 of assessed valuation: On Class I property, twelve and five-tenths cents (12.5 cents); On Class II property, twenty-five cents (25 cents); On Class IV property, fifty cents (50 cents). In addition, municipalities may provide for an election to lay an excess levy; the rates not to exceed statutory limitations, provided at least sixty percent of the voters cast ballots in favor of the excess levy.

The rates levied by the Municipality per \$100 of assessed valuation for each class of property for the fiscal year ended June 30, 2012, were as follows:

| Class of Property | Assessed Valuation For Tax Purposes | Current Expense |
|----------------------|---|--------------------|
| Class II | \$ 265,274,458 | 23.06 cents |
| Class IV | \$ 310,587,148 | 46.12 cents |

3. Inventories and Prepaid Items

For proprietary funds, inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. Restricted Assets

Certain assets of the economic development grant special revenue fund are classified as restricted assets because their use is restricted by grant agreements.

Certain proceeds of the water fund enterprise fund revenue bonds, as well as certain proceeds set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

The "regular" account is used to segregate resources accumulated for debt service payments over the next twelve months.

The "reserve" account is used to report resources set aside to make up potential future deficiencies in the regular account.

The "renewal and replacement" account is used to report resources set aside to meet unexpected contingencies or fund asset renewals and replacements.

The "customer deposit" account is used to report the segregation of returnable cash deposits from customers of the utility upon initial receipt of the service.

The "reserve for construction" account is used to report those proceeds of revenue bond and grants that are restricted for use in construction.

The "reserve for other postemployment benefits" is used to report resources set aside for the repayment of PEIA's Annual Required Contribution.

5. Capital Assets and Depreciation

Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$1,000 or more and estimated to have a useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is not reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds during the same period.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Capital assets of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------------------|--------------|
| Land improvements | 20-50 |
| Buildings | 20-50 |
| Structures and improvements | 10-20 |
| Infrastructure | 20-65 |
| Transmission and distribution | 20-65 |
| Machinery and equipment | 3-10 |
| Building improvements | 20-50 |
| Office furniture and equipment | 3-10 |

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Balances

In the governmental fund financial statements, fund balance is reported in five classifications.

| | |
|---------------------------|---|
| Nonspendable fund balance | Inventories and prepaid amounts represent fund balance amounts that are not in spendable form. |
| Restricted | The restricted category is the portion of fund balance that is externally imposed by creditors, grantors, contributors or laws or regulations. It also is imposed by law through constitutional provisions or enabling legislation. |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

| | |
|------------|--|
| Committed | The committed category is the portion of fund balance whose use is constrained by limitations have been approved by an order (the highest level of formal action) of the City Council, and that remain binding unless removed in the same manner. The approval does not automatically lapse at the end of the fiscal year. |
| Assigned | The assigned category is the portion of fund balance that has been approved by formal action of the City Council for any amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. |
| Unassigned | The unassigned category is the portion of fund balance that has not been reported in any other classification. Only the general fund can report a positive amount of unassigned fund balance. However, any governmental fund in a deficit position could report a negative amount of unassigned fund balance. |

The City Council is the government's highest level of decision-making authority. The Council would take formal action to establish, and modify or rescind, a fund balance commitment or to assign fund balance amounts to a specific purpose. The government has adopted a revenue spending policy that provides guidance for programs with multiple revenue sources. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The government has the authority to deviate from this policy if it is in the best interest of the Municipality.

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and the Coal Severance Tax Special Revenue Fund, except that other postemployment benefits are not accrued for budgeting purposes and the effects of GASB 54 combining the Rainy Day and Police Forfeiture with the General Fund. All annual appropriations lapse at fiscal year end.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

The governing body of the Municipality is required to hold a meeting or meetings between the seventh and twenty-eighth days of March to ascertain the financial condition of the Municipality and to prepare the levy estimate (budget) for the fiscal year commencing July 1. The budget is then forthwith submitted to the State Auditor for approval. The governing body then reconvenes on the third Tuesday in April to hear objections from the public and formally lay the levy.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments and revenue related revisions to the budget require approval from the governing council and then submission to the State Auditor for approval. Revisions become effective when approved by the State Auditor and budgeted amounts in the financial statements reflect only such approved amounts. The governing body made the following material supplementary budgetary appropriations throughout the year:

General Fund

| <u>Amount</u> | <u>Description</u> |
|---------------|---|
| \$ 1,136,402 | General Government Expenditure Increase |
| 145,290 | Public Safety Expenditure Increase |
| 60,361 | Streets and Transportation Expenditure Increase |
| 82,745 | Health and Sanitation Expenditure Increase |
| 23,897 | Culture and Recreation Expenditure Increase |

Coal Fund

| <u>Amount</u> | <u>Description</u> |
|---------------|---|
| \$ 42,978 | Streets and Transportation Expenditure Increase |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At year end, the government had the following investments:

| | Fair Value | Credit Risk Rating | |
|--|----------------------|-----------------------------|-----------------------------|
| | | Standard & Poor's and Fitch | Moody's Investment Services |
| Primary Government | | | |
| State Investment Management Board pool | \$ 308,143 | not rated | not rated |
| Mutual Funds | 5,177,031 | not rated | not rated |
| Municipal Bond Commission | 4,841,885 | not rated | not rated |
| Common Stock | 685,459 | N/A | N/A |
| Total | \$ 11,012,518 | | |

Interest Rate Risk

| | 0-3 years |
|--|----------------------|
| State Investment Management Board pool | \$ 308,143 |
| Mutual Funds | 5,177,031 |
| Municipal Bond Commission | 4,841,885 |
| Common Stock | 685,459 |
| Total | \$ 11,012,518 |

| | Fair Value | Credit Risk Rating | |
|---------------------------------------|---------------------|-----------------------------|-----------------------------|
| | | Standard & Poor's and Fitch | Moody's Investment Services |
| Policemen's Pension and Relief | | | |
| Mutual Funds | \$ 3,273,420 | not rated | not rated |
| Certificate of deposits | 478,332 | n/a | n/a |
| Total | \$ 3,751,752 | | |

Interest Rate Risk

| | 0-3 years |
|-------------------------|---------------------|
| Mutual Funds | \$ 3,273,420 |
| Certificate of deposits | 478,332 |
| Total | \$ 3,751,752 |

| | Fair Value | Credit Risk Rating | |
|-------------------------------------|---------------------|-----------------------------|-----------------------------|
| | | Standard & Poor's and Fitch | Moody's Investment Services |
| Firemen's Pension and Relief | | | |
| Mutual Funds | \$ 713,424 | not rated | not rated |
| Corporate Bonds | 842,558 | BBB+ - AAA | Baa3 - Aa2 |
| Preferred Stock | 26,839 | not rated | not rated |
| Common Stock | 10,887 | not rated | not rated |
| Total | \$ 1,593,708 | | |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Interest Rate Risk

| | 0-3 years | 7-10 years | Over 10 years |
|-----------------|-------------------|------------------|-------------------|
| Mutual Funds | \$ 713,424 | \$ -- | \$ -- |
| Corporate Bonds | 233,592 | 26,261 | 582,705 |
| Preferred Stock | 26,839 | -- | -- |
| Common Stock | 10,887 | -- | -- |
| Total | <u>\$ 984,742</u> | <u>\$ 26,261</u> | <u>\$ 582,705</u> |

Interest Rate Risk

The government does not have a policy for interest rate risk in addition to state regulations.

Credit Risk

State law limits investments as described in Note I.D.1. It's the government's policy to limit its investments. The government does not have a policy for credit risk in addition to state regulations. As of June 30, 2012, the government's investments were rated using Standard & Poor's and Fitch and Moody's Investment Services.

Concentration of Credit Risk

In accordance with GASB Statement No. 40, "Deposit and Investment Risk Disclosures", disclosure is required when the investment in any one issuer equals or exceeds 5% of the total amount of the investment. At year end, the government had the following investments over 5% held with these issuers:

| Issuer | Fair Value | Percent |
|------------------------------------|------------|---------|
| Vanguard S/T Invest GR - ADM #539 | \$ 469,231 | 7% |
| Wesmark government bond fund #556 | 484,858 | 7% |
| Wesmark balanced fund #559 | 473,390 | 7% |
| Capital World Growth and Income | 134,399 | 8% |
| Europacific Growth | 127,380 | 8% |
| Fundamental Investors | 143,458 | 9% |
| Income Fund of America | 141,199 | 9% |
| Income Fund America | 127,328 | 8% |
| American Mutual Fund | 225,055 | 6% |
| Bond Fund of America | 514,998 | 14% |
| Capital Income Builder Fund | 620,753 | 16% |
| Capital World Growth and Income | 275,117 | 7% |
| Income Fund of America | 547,859 | 15% |
| Intermediate Bond Fund of America | 378,880 | 10% |
| Investment Company of America Fund | 220,909 | 6% |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Custodial Credit Risk

For deposits, the government could be exposed to risk in the event of a bank failure where the government's deposits may not be returned. The government's policy for custodial credit risk is to ensure that all assets on deposit are fully collateralized by FDIC or additional securities. At year end, the primary government's and fiduciary funds' bank balances were \$7,630,077 which were fully collateralized securities held by the pledging financial institution's trust department or agent in the government's name by the FDIC.

For investments, the government could be exposed to risk in the event of the failure of the counterparty where the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The government's policy for custodial credit risk for investments is to ensure that all investments maintain adequate collateralization. At year end, the primary government's and fiduciary funds' investment balances were \$15,879,646 which were fully secured because the related securities are insured, registered and held by the government's brokerage firm which is not the counter party for these particular securities.

A reconciliation of cash and investments as shown on the Statement of Net Assets of the primary government and Statement of Net Assets of the Fiduciary Funds is as follows:

| | |
|--|----------------------|
| Cash and cash equivalents | \$ 7,630,077 |
| Investments - collateralized and secured | 15,879,646 |
| Total | <u>\$ 23,509,723</u> |
| | |
| Cash and cash equivalents | \$ 3,732,325 |
| Cash and cash equivalents-restricted | 3,897,752 |
| Investments | 3,655,502 |
| Investments-restricted | 12,224,144 |
| Total | <u>\$ 23,509,723</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

B. Receivables

Receivables at year end for the government's individual major and nonmajor funds, and fiduciary funds in the aggregate, are as follows:

| | General | Other Nonmajor Funds | Water | Building Commission |
|-------------------|---------------------|-------------------------|-------------------|------------------------|
| Receivables: | | | | |
| Accounts | \$ 404,392 | \$ -- | \$ 724,801 | \$ -- |
| Accrued interest | 1,371 | 893 | 774 | 385 |
| Taxes | 1,806,470 | -- | -- | -- |
| Other | 93,384 | -- | 90,960 | -- |
| Loans | -- | -- | -- | 109,116 |
| Grants | 41,445 | 127,974 | -- | -- |
| Total Receivables | <u>\$ 2,347,062</u> | <u>\$ 128,867</u> | <u>\$ 816,535</u> | <u>\$ 109,501</u> |

| | Park Commission | Fiduciary Funds | Parking | Total |
|-------------------|--------------------|--------------------|-----------------|---------------------|
| Receivables: | | | | |
| Accounts | \$ -- | \$ -- | \$ 9,838 | \$ 1,139,031 |
| Accrued interest | -- | 11,122 | -- | 14,545 |
| Taxes | -- | -- | -- | 1,806,470 |
| Other | 1,670 | -- | -- | 186,014 |
| Loans | -- | -- | -- | 109,116 |
| Grants | -- | -- | -- | 169,419 |
| Insurance surtax | -- | 5,384 | -- | 5,384 |
| Total Receivables | <u>\$ 1,670</u> | <u>\$ 16,506</u> | <u>\$ 9,838</u> | <u>\$ 3,429,979</u> |

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

| | Unearned | Unavailable |
|--|-------------------|-------------------|
| Property taxes receivable (general fund) | \$ -- | \$ 185,585 |
| Prepaid parking (general fund) | 110,946 | -- |
| Total deferred/unearned revenue for governmental funds | <u>\$ 110,946</u> | <u>\$ 185,585</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

| | Primary Government | | | |
|--|----------------------|---------------|-----------------|-------------------|
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 149,635 | \$ -- | \$ -- | \$ 149,635 |
| Total capital assets not being depreciated | 149,635 | -- | -- | 149,635 |
| Capital assets being depreciated: | | | | |
| Land Improvements | 530,906 | 14,215 | (9,283) | 535,838 |
| Buildings | 971,258 | 7,649 | (15,526) | 963,381 |
| Infrastructure | 30,160,945 | 864,620 | (5,517,078) | 25,508,487 |
| Machinery and equipment | 1,464,759 | 58,356 | (81,604) | 1,441,511 |
| Building improvements | 132,354 | 2,697 | -- | 135,051 |
| Office furniture and equipment | 639,989 | 42,290 | (168,861) | 513,418 |
| Vehicles | 4,602,483 | 185,468 | (495,260) | 4,292,691 |
| Less: accumulated depreciation | (32,721,618) | (898,805) | 6,287,612 | (27,332,811) |
| Total capital assets being depreciated, net | 5,781,076 | 276,490 | -- | 6,057,566 |
| Governmental activities capital assets, net | \$ 5,930,711 | \$ 276,490 | \$ -- | \$ 6,207,201 |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 972,387 | \$ -- | \$ -- | \$ 972,387 |
| Construction in progress | 8,319,613 | -- | (7,169,926) | 1,149,687 |
| Total capital assets, not being depreciated | 9,292,000 | -- | (7,169,926) | 2,122,074 |
| Capital assets being depreciated: | | | | |
| Buildings | 4,115,379 | 1,670 | -- | 4,117,049 |
| Structures and improvements | 11,640,927 | 15,392,508 | (5,767,223) | 21,266,212 |
| Transmission and distribution | 45,552,655 | 6,471,142 | (8,005,284) | 44,018,513 |
| Machinery and equipment | 7,086,601 | 1,795,288 | (298,264) | 8,583,625 |
| Less: accumulated depreciation | (26,179,516) | (2,018,560) | 3,316,996 | (24,881,080) |
| Total capital assets being depreciated, net | 42,216,046 | 21,642,048 | (10,753,775) | 53,104,319 |
| Business-type activities capital assets, net | \$ 51,508,046 | \$ 21,642,048 | \$ (17,923,701) | \$ 55,226,393 |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|--|---------------------|
| Governmental activities: | |
| General government | \$ 65,637 |
| Public safety | 274,739 |
| Streets and transportation | 547,557 |
| Culture and recreation | 10,872 |
| Total depreciation expense-governmental activities | \$ 898,805 |
| Business-type activities: | |
| Water | \$ 1,726,299 |
| Building Commission | 261,431 |
| Parking | 7,298 |
| Park Commission | 23,532 |
| Total depreciation expense-business-type activities | \$ 2,018,560 |

Construction in Progress

For business-type activities, the government has active construction projects. Active projects include the construction of new water facilities, specifically new water membranes. At year end, total spent-to-date was \$1,149,687. This project is funded through the issuance of bonds and capital contributions from State and Federal governments.

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2012, is as follows:

Interfund receivables/payables:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|------------------------|----------------------------|--------------------------------|-------------------|
| General | Economic Development Grant | Grant allocation | \$ 24,687 |
| General | Water | Emergency capital expenditures | 534,420 |
| General | Parking | Reimbursement | 1,030 |
| | Total | | \$ 560,137 |

Interfund receivables/payables for the primary government and component units:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|------------------------|---------------------|--------------------|------------------|
| Sanitary Board | Water | Revenue allocation | \$ 36,967 |
| Total: | | | \$ 36,967 |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Interfund transfers:

| | Transfers In | | | | |
|----------------------------------|------------------|-------------------------|------------------------|-------------------|-----------------------|
| | General Fund | Economic Development | Building Commission | Parking | Total Transfers In |
| Transfers out: | | | | | |
| General fund | \$ -- | \$ 66 | \$ 226,243 | \$ 178,761 | \$ 405,070 |
| Parking | -- | -- | 182,545 | -- | 182,545 |
| Nonmajor govern- mental funds | 70,548 | 5,570 | -- | -- | 76,118 |
| Total Transfers Out | <u>\$ 70,548</u> | <u>\$ 5,636</u> | <u>\$ 408,788</u> | <u>\$ 178,761</u> | <u>\$ 663,733</u> |

Interfund transfers provide appropriations to subsidize the funds to support the programs and activities of the government.

E. Fund Balance Detail

At year-end, the detail of the government's fund balances is as follows:

| | General Fund | Coal Severance | Other Nonmajor Governmental Funds |
|----------------------------|---------------------|-------------------|---|
| Nonspendable: | | | |
| Inventory | \$ 74,186 | \$ -- | \$ -- |
| Prepays | 9,631 | -- | -- |
| Restricted: | | | |
| Public safety | 133,744 | -- | 5,051 |
| Health and sanitation | -- | -- | 13,663 |
| Streets and transportation | 515,647 | -- | -- |
| Capital projects | -- | -- | 8,710 |
| Committed: | | | |
| Public safety | 207,314 | -- | -- |
| Health and sanitation | 95,735 | -- | -- |
| Employee health | -- | -- | 1,206,767 |
| Streets and transportation | -- | 81,291 | -- |
| Assigned: | | | |
| Employee health | 276,686 | -- | 248,907 |
| Culture and recreation | -- | -- | 10,555 |
| Streets and transportation | 81,291 | -- | -- |
| Capital projects | 2,344,015 | -- | -- |
| Economic development | -- | -- | 956 |
| Other | -- | -- | 17 |
| Unassigned | 2,487,662 | -- | -- |
| Total fund balances | <u>\$ 6,225,911</u> | <u>\$ 81,291</u> | <u>\$ 1,494,626</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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For the Fiscal Year Ended June 30, 2012

F. Leases

Capital Leases

The government has entered into lease agreements as lessee for financing the acquisition of street equipment, office equipment and public safety equipment. These lease agreements qualify as capital leases for accounting purposes, and, therefore have been recorded at the present value of the future minimum lease payments as of the inception date.

The government has entered into lease agreements as lessee for financing the acquisition of machinery and equipment for the Water Fund. This lease agreement qualifies as capital assets for accounting purposes, and, therefore has been recorded at the present value of future minimum lease payments as of the inception date in the water enterprise fund.

The assets acquired through capital leases are as follows:

| <u>Asset</u> | <u>Governmental Activities</u> | <u>Water</u> |
|-----------------------------------|------------------------------------|-------------------|
| Machinery, equipment and vehicles | \$ 1,952,536 | \$ 1,425,000 |
| Less: accumulated depreciation | (1,264,506) | (1,282,500) |
| Total | <u>\$ 688,030</u> | <u>\$ 142,500</u> |

The asset and accumulated depreciation amounts reflected above are estimated.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | <u>Business- type Activities</u> |
|---|------------------------------------|--|
| 2013 | \$ 221,907 | \$ 174,257 |
| 2014 | 194,324 | -- |
| 2015 | 150,438 | -- |
| 2016 | 99,559 | -- |
| 2017 | 99,363 | -- |
| Total minimum lease payments | <u>\$ 765,591</u> | <u>\$ 174,257</u> |
| Less: amount representing interest | (77,190) | (4,734) |
| Present value of minimum lease payments | <u>\$ 688,401</u> | <u>\$ 169,523</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

G. Long-term Debt

Notes Payable

The Municipality entered into a loan agreements with Chase Bank and Page Valley Bank to finance upgrades to the water plant.

| Purpose | Maturity Dates | Interest Rates | Issued | Retired | Balance June 30, 2012 |
|----------------------------------|----------------|----------------|---------------------|---------------------|--------------------------|
| Business-type activities: | | | | | |
| Chase Bank | 2017 | 4.45% | \$ 733,000 | \$ 451,536 | \$ 281,464 |
| Page Valley Bank | 2016 | 4.60% | 1,070,600 | 720,400 | 350,200 |
| WV Housing Development-Building | 2013 | various | 100,000 | -- | 100,000 |
| Total notes payable | | | <u>\$ 1,903,600</u> | <u>\$ 1,171,936</u> | <u>\$ 731,664</u> |

Debt service requirements to maturity are as follows:

| Year Ended | Business-type Activities | |
|---------------|-----------------------------|------------------|
| | Principal | Interest |
| 2013 | \$ 239,022 | \$ 25,764 |
| 2014 | 145,470 | 19,318 |
| 2015 | 152,216 | 12,572 |
| 2016 | 146,472 | 5,531 |
| 2017 | 48,484 | 903 |
| Totals | <u>\$ 731,664</u> | <u>\$ 64,088</u> |

Revenue Bonds

The Municipality issues bonds where the government pledges income derived from acquired or constructed assets to pay debt service. Revenue Bonds outstanding at year end are as follows:

| Purpose | Maturity Dates | Interest Rates | Issued | Retired | Balance June 30, 2012 |
|--------------------------------------|----------------|----------------|----------------------|----------------------|--------------------------|
| Business-type activities: | | | | | |
| Series 1997 | 2014 | 5.38% | \$ 10,260,000 | \$ 8,355,000 | \$ 1,905,000 |
| Series 1998 | 2029 | 3.6% - 4.9% | 9,600,000 | 1,185,000 | 8,415,000 |
| Series 1999 | 2029 | 4.5% - 5.25% | 19,945,000 | -- | 19,945,000 |
| Series 2008 A | 2039 | 0% | 2,750,000 | 321,835 | 2,428,165 |
| Series 2010 A | 2041 | 0% | 3,895,361 | 74,128 | 3,821,233 |
| Series 2010 C | 2031 | 5.00% | 2,000,000 | -- | 2,000,000 |
| Series 2010 D | 2047 | 0% | 246,651 | 16,450 | 230,201 |
| Veterans Plaza Parking Garage | | | | | |
| Series 1999 | 2015 | 5.75% | 750,000 | 603,547 | 146,453 |
| Municipal Building Series A | 2045 | 4.25% | 2,999,450 | 231,459 | 2,767,991 |
| Municipal Building Series B | 2015 | 4.00% | 500,000 | 342,055 | 157,945 |
| Parking Garage Series 2005 | 2025 | 5.14% | 1,345,000 | 348,516 | 996,484 |
| Total revenue bonds | | | <u>\$ 54,291,462</u> | <u>\$ 11,477,990</u> | <u>\$ 42,813,472</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
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Revenue bond debt service requirements to maturity are as follows:

| Year Ended | Business-type Activities | |
|---------------|-----------------------------|----------------------|
| | Principal | Interest |
| 2013 | \$ 1,625,584 | \$ 1,757,079 |
| 2014 | 1,694,651 | 1,684,890 |
| 2015 | 1,684,167 | 1,611,721 |
| 2016 | 1,701,738 | 1,545,000 |
| 2017 | 1,775,802 | 1,465,368 |
| 2018 - 2022 | 9,992,706 | 6,084,222 |
| 2023 - 2027 | 12,038,109 | 3,662,317 |
| 2028 - 2032 | 9,339,863 | 989,461 |
| 2033 - 2037 | 1,719,394 | 268,506 |
| 2038 - 2042 | 893,896 | 145,682 |
| 2043 - 2047 | 347,562 | 347,163 |
| Totals | <u>\$ 42,813,472</u> | <u>\$ 19,561,409</u> |

Utility Pledged Revenues

The Municipality has pledged future water customer revenues, net of specified operating expenses, to repay \$10,260,000 in water system revenue bonds issued in 1997. Proceeds from the bonds were used to currently refund all the Issuer's outstanding Waterworks Refunding Revenue Bonds, Series 1987. The bonds are payable solely from water customer net revenues and are payable through 2014. Annual principal and interest payments on the bonds are expected to require less than 21 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,009,049. Principal and interest paid for the current year and total customer net revenues were \$1,001,738 and \$4,946,111, respectively.

The Municipality has pledged future water customer revenues, net of specified operating expenses, to repay \$9,600,000 in water system revenue bonds issued in 1998. Proceeds from the bonds provided financing for the acquisition and construction of certain additions, betterments, and improvements to the existing water system. The bonds are payable solely from water customer net revenues and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 12 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$12,687,871. Principal and interest paid for the current year and total customer net revenues were \$546,038 and \$4,946,111, respectively.

The Municipality has pledged future water customer revenues, net of specified operating expenses, to repay \$19,945,000 in water system revenue bonds issued in 1999. Proceeds from the bonds provided financing for the acquisition and construction of certain additions, betterments, and improvements to the existing water system. The bonds are payable solely from water customer net revenues and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 21 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$30,931,181. Principal and interest paid for the current year and total customer net revenues were \$1,001,863 and \$4,946,111, respectively.

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The Municipality has pledged future water customer revenues, net of specified operating expenses, to repay \$2,750,000 in water system revenue bonds issued in 2008. Proceeds from the bonds provided financing for the acquisition and construction of certain additions, betterments, and improvements to the existing water system. The bonds are payable solely from water customer net revenues and are payable through 2039. Annual principal payments on the bonds are expected to require less than 2 percent of net revenues. The total principal remaining to be paid on the bonds is \$2,428,165. Principal paid for the current year and total customer net revenues were \$91,668 and \$4,946,111, respectively.

The Municipality has pledged future water customer revenues, net of specified operating expenses, to repay \$3,895,361 in water system revenue bonds issued in 2010. Proceeds from the bonds provided financing for the acquisition and construction of certain additions, betterments, and improvements to the existing water system. The bonds are payable solely from water customer net revenues and are payable through 2041. Annual principal payments on the bonds are expected to require less than 2 percent of net revenues. The total principal remaining to be paid on the bonds is \$3,821,233. Principal paid for the current year and total customer net revenues were \$74,128 and \$4,946,111, respectively.

The Municipality has pledged future water customer revenues, net of specified operating expenses, to repay \$2,000,000 in water system revenue bonds issued in 2010. Proceeds from the bonds provided financing for the acquisition and construction of certain additions, betterments, and improvements to the existing water system. The bonds are payable solely from water customer net revenues and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 3 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$3,164,706. Principal and interest paid for the current year and total customer net revenues were \$100,000 and \$4,946,111, respectively.

The Municipality has pledged future water customer revenues, net of specified operating expenses, to repay \$246,651 in water system revenue bonds issued in 2010. Proceeds from the bonds provided financing for the acquisition and construction of certain additions, betterments, and improvements to the existing water system. The bonds are payable solely from water customer net revenues and are payable through 2047. Annual principal payments on the bonds are expected to require less than 1 percent of net revenues. The total principal remaining to be paid on the bonds is \$230,201. Principal paid for the current year and total customer net revenues were \$16,450 and \$4,946,111, respectively.

The Municipality has pledged future lease revenues, net of specified operating expenses, to repay \$750,000 in building commission revenue bonds issued in 1999. Proceeds from the bonds provided financing for the acquisition and construction of a parking garage at Veterans Plaza. The bonds are payable from parking customer revenues as well as revenues set aside for capital projects and are payable through 2015. Annual principal and interest payments on the bonds are expected to require less than 18 percent of parking net revenues. The total principal and interest remaining to be paid on the bonds is \$155,752. Principal and interest paid for the current year and total lease net revenues were \$74,760 and \$419,242, respectively.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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The Municipality has pledged future lease revenues, net of specified operating expenses, to repay \$2,999,450 in building commission revenue bonds issued in 2005. Proceeds from the bonds provided financing for the Municipality's Public Safety Building. The bonds are payable from general fund revenues as well as revenues set aside for capital projects and are payable through 2045. Annual principal and interest payments on the bonds are expected to require less than 38 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$5,424,805. Principal and interest paid for the current year and total lease net revenues were \$157,656 and \$419,242, respectively.

The Municipality has pledged future lease revenues, net of specified operating expenses, to repay \$500,000 in building commission revenue bonds issued in 2005. Proceeds from the bonds provided financing for completing the renovations to the Municipality's Public Safety Building. The bonds are payable from lease fund revenues as well as revenues set aside for capital projects and are payable through 2015. Annual principal and interest payments on the bonds are expected to require less than 15 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$167,054. Principal and interest paid for the current year and total lease net revenues were \$60,747 and \$419,242, respectively.

The Municipality has pledged future lease revenues, net of specified operating expenses, to repay \$1,345,000 in building commission revenue bonds issued in 2005. Proceeds from the bonds provided financing for completing a 250 space parking garage located on the corner of Adams and Madison Streets. The bonds are payable from lease revenues as well as revenues set aside for capital projects and are payable through 2025. Annual principal and interest payments on the bonds are expected to require less than 26 percent of parking customer net revenues. The total principal and interest remaining to be paid on the bonds is \$1,354,864. Principal and interest paid for the current year and lease net revenues were \$107,784 and \$419,242, respectively.

Changes in Long-term Liabilities

| | Governmental Activities | | | | |
|--------------------------|---------------------------------|---------------------|-----------------------|----------------------|------------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
| Capital leases | \$ 995,516 | \$ -- | \$ (307,115) | \$ 688,401 | \$ 193,729 |
| Compensated absences | 1,186,525 | -- | (20,002) | 1,166,523 | 236,895 |
| Net pension obligation | 12,930,710 | 1,222,294 | -- | 14,153,004 | -- |
| Governmental activities | | | | | |
| Long-term liabilities | <u>\$ 15,112,751</u> | <u>\$ 1,222,294</u> | <u>\$ (327,117)</u> | <u>\$ 16,007,928</u> | <u>\$ 430,624</u> |
| | Business-type Activities | | | | |
| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
| Revenue bonds payable | \$ 41,324,850 | \$ 2,896,459 | \$ (1,407,837) | \$ 42,813,472 | \$ 1,625,584 |
| Notes payable | 864,525 | -- | (132,861) | 731,664 | 239,022 |
| Capital leases | 347,516 | -- | (177,993) | 169,523 | 169,523 |
| Compensated absences | 244,063 | 13,949 | -- | 258,012 | 101,296 |
| Business-type activities | | | | | |
| Long-term liabilities | <u>\$ 42,780,954</u> | <u>\$ 2,910,408</u> | <u>\$ (1,718,691)</u> | <u>\$ 43,972,671</u> | <u>\$ 2,135,425</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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H. Restricted Assets

The balances of the restricted asset accounts for the primary government are as follows:

| | Governmental Activities | Business-type Activities |
|---|----------------------------|-----------------------------|
| Customer deposits | \$ 19,118 | \$ 123,368 |
| Revenue bond operations and maintenance account | -- | 4,841,885 |
| Revenue bond construction account | -- | 124,103 |
| Revenue bond debt service account | 2,377,496 | 939,152 |
| Revenue bond renewal and replacement account | -- | 2,105,902 |
| Total restricted assets | <u>\$ 2,396,614</u> | <u>\$ 8,134,410</u> |

I. Prior Period Adjustment

In prior years the OPEB special revenue fund was shown in the financial statements as a separate fund. Other postemployment benefits payable, as well as restricted assets of the general and water funds and the Sanitary Board were accounted for within the OPEB fund. It was determined in the current year to allocate the appropriate amounts from the OPEB fund to the proper funds. This removal of the OPEB fund required a prior period adjustment. Furthermore, a prior period adjustment was required to the General Fund to include Capital Reserve and Police Funds reported separately in prior years. The following fund balances and net assets required restatement at the beginning of the year as follows:

| | General | Water | Capital Reserve | Police | OPEB |
|--|---------------------|----------------------|--------------------|--------------|--------------|
| Fund balances, as previously stated | \$ 2,914,671 | \$ 12,313,775 | \$ 1,734,359 | \$ 9,187 | \$ 132,565 |
| Add: | | | | | |
| Special revenue funds | 1,743,546 | -- | -- | -- | -- |
| Other postemployment benefit allocation | 57,676 | 58,841 | -- | -- | -- |
| Less: | | | | | |
| GASB 54 adjustment | -- | -- | (1,734,359) | (9,187) | -- |
| Other postemployment allocation | -- | -- | -- | -- | (132,565) |
| Fund balances, restated | <u>\$ 4,715,893</u> | <u>\$ 12,372,616</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> |

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The following net assets of the governmental and business-type activities required restatement at the beginning of the year as follows:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|----------------------------------|------------------------------------|-------------------------------------|
| Net assets, as previously stated | \$ (2,396,188) | \$ 16,364,921 |
| Add: | | |
| Liabilities of other funds | 779,220 | -- |
| Other postemployment allocation | | 58,841 |
| Less: | | |
| Assets of other funds | (856,482) | -- |
| Net assets, restated | <u>\$ (2,473,450)</u> | <u>\$ 16,423,762</u> |

V. OTHER INFORMATION

A. Risk Management

The government is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries insurance with St. Paul Insurance (general liability) insurance for these various risks.

Workers' Compensation Fund (WCF): West Virginia utilizes a single private insurance company, Brick Street Insurance, to provide workers' compensation coverage to all employers in the state. Other private insurance companies could begin to offer coverage to private sector employers beginning July 1, 2008, and to government employers July 1, 2010. For the most part, all employers in the State, including governmental entities, must have coverage. The cost of all coverage, as determined by Brick Street, is paid by the employers. The WCF risk pool retains the risk related to the compensation of injured employees under the program.

Liabilities are reported when it is probable a loss has occurred and the amount of the loss can be reasonably estimated.

B. Subsequent Events

In October 2012 the government paid off Revenue Bond's Series 1997 and 1998. Also, the Municipality refinanced Water Revenue Bond Series 1999. The refinance was performed in order to lower the interest rate. The refinanced bond was refinanced as revenue bond series 2012 D.

C. Contingent Liabilities

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material effect on the financial condition of the government.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

VI. EMPLOYEE RETIREMENT SYSTEMS AND PLANS

VI.A.1. Plan Descriptions, Contribution Information, and Funding Policies

The Municipality of Fairmont, West Virginia participates in two single employer, public employee retirement systems. Assets are held separately and may be used only for the payment of benefits to the members of the respective plans, as follows:

The **Policemen's Pension and Relief Fund (PPRF)** provides retirement benefits for substantially all full-time police employees. Unless otherwise indicated, PPRF information in this Note is provided as of the latest actuarial valuation, July 1, 2011.

The **Firemen's Pension and Relief Fund (FPRF)** provides retirement benefits for substantially all full-time fire employees. Unless otherwise indicated, FPRF information in this Note is provided as of the latest actuarial valuation, July 1, 2011.

Actuarial valuations are required to be performed once every three years per state statute. However, the actuarial valuations can be performed in shorter intervals at the discretion of the PPRF and FPRF's board. For additional information relating to basis of accounting and reported investment values, see Notes I.C., I.D.1. and IV.I.

Memberships of the plans are as follows:

| <u>Group</u> | <u>PPRF</u> | <u>FPRF</u> | <u>Totals</u> |
|--------------------------------------|-------------|-------------|---------------|
| Active Employees | 33 | 41 | 74 |
| Disabled Members | 7 | 2 | -- |
| Retirees and Beneficiaries Currently | | | |
| Receiving Benefits | 41 | 58 | 99 |
| Total | <u>81</u> | <u>101</u> | <u>173</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

These plans are defined benefit plans. The following is a summary of funding policies, contribution methods and benefit provisions.

| | <u>PPRF</u> | <u>FPRF</u> |
|--|---|------------------------|
| Determination of contribution requirements | Actuarially determined | Actuarially determined |
| Employer | Contributes annually an amount which, together with contributions from the members and the allocable portion of the State premium tax fund, will be sufficient to meet the normal cost of the fund and amortize any actuarial deficiency over a period of not more than forty years in accordance with West Virginia State code §8-22-10. However, municipalities may utilize an alternative contribution method which allows the City to contribute no less than 107% of the prior year contribution provided the actuary certifies in writing that the fund will be solvent over the next 15 years under this method as authorized by West Virginia State code §8-22-20c(1). In no event can the employer contribution be less than the normal cost as determined by the actuary. The Municipality contributes 107% of the prior year's contributions for both the police and fire pension plans. | |
| | <u>PPRF</u> | <u>FPRF</u> |
| Plan Members | 7% of covered payroll | 7% of covered payroll |
| Period Required to Vest | No vesting occurs. If separation from employment occurs the member is entitled to a refund of his/her contributions only. | |
| Post-Retirement Benefit Increases | Cost of living adjustment after two years of retirement. Adjustment calculated on the first \$15,000 of the total annual benefit in the first year and then the cumulative index for the preceding year. The supplemental pension benefit shall not exceed four percent. | |
| Eligibility for Distribution | 20 years of credited service or age 65; whichever comes first. Must be at least age 50. | |
| Provisions for: | <u>PPRF</u> | <u>FPRF</u> |
| Disability Benefits | Yes | Yes |
| Death Benefits | Yes | Yes |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Annual Required Contributions and Significant Actuarial Assumptions

The actuarial assumptions and other information used to determine the annual required contributions (ARC) are as follows:

| | Policemen's Pension & Relief Fund | Firemen's Pension & Relief Fund |
|-----------------------------------|--|---|
| Valuation Date | 7/1/2011 | 7/1/2011 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Percentage Open | Level Percentage Open |
| Amortization Period | 29 Years (Level Percentage) | 29 Years (Level Percentage) |
| Actuarial Asset Valuation Method | Market Value | Market Value |
| Actuarial Assumptions: | | |
| Investment Rate of Return | 5.00% | 5.00% |
| Projected Salary Increases | 9% (year 1) 4.5% (year 2) 2% (years 3 and 4) and 1% thereafter | 9% (year 1) 4.5% (year 2) 2% (years 3 and 4) and 1% thereafter |
| Post Retirement Benefit Increases | None | None |
| Inflation | 3.00% | 3.00% |
| Cost of Living Adjustments | \$15,000 of annual pension is increased by the lesser of inflation and 3%. | \$15,000 of annual pension is is increased by the lesser of inflation and 3%. |

VI.A.2. Annual Pension Cost, Net Pension Obligation and Reserves

Current year annual pension costs for the PPRF and FPRF are shown in the trend information provided in VI.A.4. The annual required contributions were not made by both the PPRF or FPRF. The net pension obligation is listed in VI.A.3.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Reserves

There are no assets legally reserved for purposes other than the payment of plan members benefits for either plan.

VI.A.3 Annual Pension Cost and Net Pension Obligation (NPO)

The Municipality's annual pension cost and net pension obligation for the Policemen's and Firemen's Pension and Relief funds are as follows:

| | <u>PPRF</u> | <u>FPRF</u> |
|--|----------------------------|----------------------------|
| Annual required contribution | \$ 1,302,981 | \$ 1,819,002 |
| Interest on short-term | 236,888 | 409,647 |
| Adjustment to annual required contribution | <u>(186,195)</u> | <u>(321,984)</u> |
| Annual pension cost | 1,353,674 | 1,906,665 |
| Contributions made | <u>881,397</u> | <u>1,156,648</u> |
| Increase in net pension obligation | 472,277 | 750,017 |
| Net pension obligation at beginning of the year | <u>4,737,764</u> | <u>8,192,946</u> |
| Net pension obligation at the end of the year | <u><u>\$ 5,210,041</u></u> | <u><u>\$ 8,942,963</u></u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

VI.A.4. Trend Information

Policemen's Pension and Relief Fund (PPRF)

| <u>Fiscal Year</u> | <u>Annual Pension Cost</u> | <u>Percentage Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------|-------------------------------|-------------------------------|
| 2012 | \$ 1,353,674 | 65% | \$ 5,210,041 |
| 2011 | \$ 1,306,046 | 66% | \$ 4,737,764 |

Firemen's Pension and Relief Fund (FPRF)

| <u>Fiscal Year</u> | <u>Annual Pension Cost</u> | <u>Percentage Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------|-------------------------------|-------------------------------|
| 2012 | \$ 1,906,665 | 61% | \$ 8,942,963 |
| 2011 | \$ 1,767,813 | 64% | \$ 8,192,946 |

VI.A.5. Funding Progress

Policemen's Pension and Relief Fund (PPRF)

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) (b)</u> | <u>Unfunded AAL (UAAL) (b)-(a)</u> | <u>Funded Ratio (a)/(b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a % covered payroll (b-a)/c</u> |
|---------------------------------|--------------------------------------|--|------------------------------------|-----------------------------|----------------------------|--|
| 7/1/11 | 3,840,024 | 24,842,350 | 21,002,326 | 15% | 1,502,220 | 1398% |

Firemen's Pension and Relief Fund (FPRF)

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) (b)</u> | <u>Unfunded AAL (UAAL) (b)-(a)</u> | <u>Funded Ratio (a)/(b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a % covered payroll (b-a)/c</u> |
|---------------------------------|--------------------------------------|--|------------------------------------|-----------------------------|----------------------------|--|
| 7/1/11 | 2,009,751 | 33,126,234 | 31,116,483 | 6% | 1,845,536 | 1686% |

The Schedule of Funding Progress included in the required supplementary information immediately following the notes indicates the actuarial value of the plan assets is increasing over time relative to the actuarial accrued liability for both plans.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

Pension Trust Funds Financial Statements

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
June 30, 2012

| | <u>Policemen's Pension and Relief</u> | <u>Firemen's Pension and Relief</u> |
|--|---|---|
| ASSETS | | |
| Non-pooled cash | \$ 111,997 | \$ 133,414 |
| Total cash | <u>111,997</u> | <u>133,414</u> |
| Investments, at fair value: | | |
| Certificate of deposits | 478,332 | -- |
| Mutual funds | 3,273,420 | 713,424 |
| Common stock | -- | 10,887 |
| Preferred stock | -- | 26,839 |
| Corporate bonds | <u>--</u> | <u>842,558</u> |
| Total investments | <u>3,751,752</u> | <u>1,593,708</u> |
| Receivables: | | |
| Interest receivable | 6,217 | 4,905 |
| Insurance surtax | <u>2,692</u> | <u>2,692</u> |
| Total receivables | <u>8,909</u> | <u>7,597</u> |
| Total assets | <u>\$ 3,872,658</u> | <u>\$ 1,734,719</u> |
| LIABILITIES | | |
| Accounts payable | <u>136</u> | <u>33</u> |
| Total liabilities | <u>136</u> | <u>33</u> |
| NET ASSETS | | |
| Net assets held in trust for pension benefits | <u>\$ 3,872,522</u> | <u>\$ 1,734,686</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
June 30, 2012

| | <u>Policemen's Pension and Relief</u> | <u>Firemen's Pension and Relief</u> |
|---|---|---|
| ADDITIONS | | |
| Contributions: | | |
| Employer | \$ 542,082 | \$ 736,447 |
| Plan members | 109,004 | 155,442 |
| Insurance premium surtax | <u>339,315</u> | <u>420,200</u> |
| Total contributions | <u>990,401</u> | <u>1,312,089</u> |
| Investment income: | | |
| Net increase (decrease) in fair value of investments | (15,532) | (67,898) |
| Net gain (loss) on sale of investments | 7,026 | (8,890) |
| Interest and dividends | 122,301 | 64,944 |
| Miscellaneous | <u>--</u> | <u>30</u> |
| Net investment income | <u>113,795</u> | <u>(11,814)</u> |
| Total additions | <u>1,104,196</u> | <u>1,300,275</u> |
| DEDUCTIONS | | |
| Benefits | 1,070,275 | 1,570,991 |
| Administrative expenses | <u>1,423</u> | <u>4,349</u> |
| Total deductions | <u>1,071,698</u> | <u>1,575,340</u> |
| Change in net assets | 32,498 | (275,065) |
| Net assets held in trust for pension benefits: | | |
| Beginning of year | <u>3,840,024</u> | <u>2,009,751</u> |
| End of year | <u>\$ 3,872,522</u> | <u>\$ 1,734,686</u> |

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

VI.B.1 Plan Descriptions Contribution Information and Funding Policies

Public Employees Retirement System (PERS)

The Municipality of Fairmont, West Virginia participates in a state-wide, cost-sharing, multiple-employer defined benefit plan on behalf of general Municipality employees. The system is administered by agencies of the State of West Virginia and funded by contributions from participants, employers, and State appropriations, as necessary.

The following is a summary of eligibility factors, contribution methods, and benefit provisions:

| Public Employees Retirement System (PERS) | |
|--|--|
| Eligibility to participate | All Municipality full-time employees, except those covered by other pension plans. |
| Authority establishing contribution obligations and benefit provisions | State Statute |
| Plan member's contribution rate | 4.50% |
| Municipality's contribution rate | 14.50% |
| Period required to vest | Five Years |
| Benefits and eligibility for distribution | A member who has attained age 60 and has earned 5 years or more of contributing service or age 55 if the sum of his/her age plus years of credited service is equal to or greater than 80. The final average salary (three highest consecutive years in the last 10) times the years of service times 2% equals the annual retirement benefit. |
| Deferred retirement portion | No |
| Provisions for: | |
| Cost of Living | No |
| Death Benefits | Yes |

VI.B.2. Trend Information

Public Employees Retirement System (PERS)

| <u>Fiscal Year</u> | <u>Annual Pension Cost</u> | <u>Percentage Contributed</u> |
|--------------------|--------------------------------|-----------------------------------|
| 2012 | \$ 563,485 | 100% |
| 2011 | \$ 489,721 | 100% |
| 2010 | \$ 392,849 | 100% |
| 2009 | \$ 385,146 | 100% |

PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees Retirement System, 4101 MacCorkle Ave S.E., Charleston, WV 25304.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

VII. RETIREMENT HEALTH PLAN (RHP)

VII.1 Plan Description:

The Municipality contributes to the West Virginia Retiree Health Benefits Trust Fund (RHBT), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the West Virginia Public Employees Insurance Agency (PEIA). RHBT provides medical benefits to eligible retired employees of participating employers. RHBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: West Virginia Retiree Health Benefits Trust, Building 5, Room 1001, 1900 Kanawha Boulevard East, Charleston, West Virginia, 25305-0710.

VII. 2 Authority Establishing the Plan and Funding Policy

Chapter 5, Article 16D of the West Virginia Code assigns the authority to establish and amend benefits and provisions to the RHBT. Plan members are currently required to contribute \$961 per month per active health policy. Participating employers are contractually required to contribute at a rate assessed each year by RHBT. The RHBT board sets the employer contribution rate based on the annual required contributions of the plan (ARC), and amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The entity's contribution to RHBT for the year ended June 30, 2012, was \$269,761, which represents 18% of the required contribution this year.

VII.3 Trend Information

West Virginia Retiree Health Benefits Trust Fund (RHBT)

| <u>Fiscal Year</u> | <u>Annual OPEB Cost</u> | <u>Percentage Contributed</u> |
|--------------------|-----------------------------|-----------------------------------|
| 2012 | \$ 1,498,671 | 18% |
| 2011 | \$ 1,446,622 | 18% |
| 2010 | \$ 1,014,661 | 15% |
| 2009 | \$ 503,887 | 42% |
| 2008 | \$ 233,412 | 58% |

REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2012

I. SCHEDULES OF FUNDING PROGRESS

Policemen's Pension and Relief Fund (PPRF)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) -Entry Age (b) | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a % covered payroll (b-a)/c |
|--------------------------------|--|--|--------------------------------------|----------------------------|---------------------------|---|
| 7/1/11 | \$ 3,840,024 | \$ 24,842,350 | \$ 21,002,326 | 15% | \$ 1,502,220 | 1398% |
| 7/1/10 | 3,368,627 | 24,238,478 | 20,869,851 | 13.90% | 1,458,935 | 1430% |
| 7/1/09 | 3,174,316 | 23,667,967 | 20,493,651 | 13.41% | 1,432,307 | 1431% |
| 7/1/08 | 3,786,088 | 23,000,887 | 19,214,799 | 16.46% | 1,479,881 | 1298% |
| 7/1/07 | 4,038,740 | 18,155,269 | 14,116,529 | 22.25% | 1,356,042 | 1041% |
| 7/1/04 | 3,297,159 | 22,490,459 | 19,193,300 | 14.66% | 1,312,776 | 1462% |

Firemen's Pension and Relief Fund (FPRF)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) -Entry Age (b) | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a % covered payroll (b-a)/c |
|--------------------------------|--|--|--------------------------------------|----------------------------|---------------------------|---|
| 7/1/11 | \$ 2,009,751 | \$ 33,126,234 | \$ 31,116,483 | 6% | \$ 1,845,536 | 1686% |
| 7/1/10 | 1,870,356 | 31,669,126 | 29,798,770 | 6% | 1,671,862 | 1782% |
| 7/1/09 | 1,893,217 | 26,665,658 | 24,772,441 | 7% | 1,665,284 | 1488% |
| 7/1/08 | 2,483,747 | 24,349,397 | 21,865,650 | 10% | 1,568,485 | 1394% |
| 7/1/05 | 2,756,000 | 25,170,167 | 22,414,167 | 10.95% | 1,520,622 | 1474% |

**MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2012**

II. SCHEDULES OF EMPLOYER CONTRIBUTIONS

Policemen's Pension and Relief Fund (PPRF)

| <u>Fiscal Year</u> | <u>Municipal Contributions</u> | <u>Percent Contributed</u> |
|--------------------|------------------------------------|--------------------------------|
| 2012 | \$ 542,082 | 42% |
| 2011 | 506,956 | 40% |
| 2010 | 482,673 | 38% |
| 2009 | 443,835 | 35% |
| 2008 | 414,047 | 32% |
| 2007 | 392,709 | 38% |

Firemen's Pension and Relief Fund (FPRF)

| <u>Fiscal Year</u> | <u>Municipal Contributions</u> | <u>Percent Contributed</u> |
|--------------------|------------------------------------|--------------------------------|
| 2012 | \$ 736,448 | 40% |
| 2011 | 688,608 | 41% |
| 2010 | 652,441 | 35% |
| 2009 | 602,496 | 33% |
| 2008 | 562,358 | 39% |
| 2007 | 531,290 | 37% |

SUPPLEMENTARY INFORMATION

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF RATE COVENANT COMPLIANCE
For the Fiscal Year Ended June 30, 2012

- I. The Municipality of Fairmont, West Virginia is subject to rate covenant compliance associated with the issuance of the Series 2010 Bonds. Specifically, the Municipality must meet gross revenue targeted percentage and reserve debt requirements as shown in the bond document as follows:

"... That the schedule of rates or charges for the services of the System shall be sufficient to provide funds which, along with other revenues of the System, will pay Operating Expenses and leave a balance each year equal to at least one hundred fifteen percent (115%) of the maximum amount required in any year for debt service on the Local Bonds and all other obligations secured by a lien on or payable from the revenues of the System prior to or on a parity with the Local Bonds or, if the Reserve Account is funded (whether by Local Bond proceeds, monthly deposits or Otherwise) at an amount equal to the Reserve Requirement and any reserve account for any such prior or parity obligations is funded at least at the requirement therefor, equal to at least one hundred ten percent (110%) of the maximum amount required in any year for debt service on the Local Bonds any such prior or parity obligations."

The following schedule summarizes the provisions for the fiscal year ended June 30, 2012.

Rate Covenant

| Net Gross | | Maximum | | |
|-----------------|-----------|----------------------|---------------------|-------------------|
| <u>Revenues</u> | | <u>Amount Annual</u> | <u>Debt Service</u> | <u>Percentage</u> |
| \$ | 4,946,111 | \$ | 3,316,025 | 149% |
| | | | | <u>Required</u> |
| | | | | 115% |

As of June 30, 2012, the Municipality was in compliance with the provisions of the 2010 revenue bond covenant which require revenues to be 115% or above the amount of the highest principal payment plus interest due in any given year.

The provisions of the 1997, 1998, 1999, 2008, and 2010 revenue bond covenants require that assets be accumulated in restricted accounts for the payment of future debt service. The covenant requires, at a minimum, that an amount equivalent to one-third of the current year's debt service payment be maintained in a revenue account. A reserve account must also be funded with one-tenth of one-twelfth of the highest debt service payment in any given year. The Municipality will deposit \$1,159,143 in the reserve accounts to comply with the bond provisions.

ACCOMPANYING INFORMATION



State of West Virginia

Glen B. Gainer III
State Auditor and
Chief Inspector

Stuart T. Stickel, CPA
Deputy Chief Inspector

Office of the State Auditor
Chief Inspector Division
1900 Kanawha Boulevard, East
State Capitol Complex, Building 1, Room W-100
Charleston, West Virginia 25305

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Council
Municipality of Fairmont
Fairmont, West Virginia 26554

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Municipality of Fairmont, West Virginia (the Municipality), as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon, dated February 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Municipality is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Municipality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2012-01 to be a material weakness.

Compliance and Other Matters

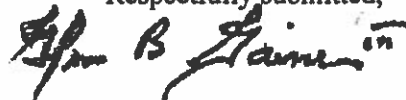
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-02.

We noted certain matters that we reported to management of the Municipality in a separate letter dated February 27, 2013.

The Municipality's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Municipality's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Glen B. Gainer III", is written over a horizontal line.

Glen B. Gainer III
West Virginia State Auditor

February 27, 2013



State of West Virginia

Glen B. Gainer III
State Auditor and
Chief Inspector

Stuart T. Stickle, CPA
Deputy Chief Inspector

Office of the State Auditor
Chief Inspector Division
1900 Kanawha Boulevard, East
State Capitol Complex, Building 1, Room W-100
Charleston, West Virginia 25305

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council
Municipality of Fairmont
Fairmont, West Virginia 26554

Compliance

We have audited the compliance of the Municipality of Fairmont, West Virginia (the Municipality), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Municipality's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Municipality's compliance with those requirements.

In our opinion, the Municipality complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Glen B. Gainer III
West Virginia State Auditor

February 27, 2013

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

| | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Number</u> | <u>Total Expenditures</u> |
|--|------------------------------------|---|-------------------------------|
| U.S. Federal Environmental Protection Agency | | | |
| Pass-through Programs From: | | | |
| West Virginia Department of Environmental Protection | | | |
| <u>Program Title</u> | | | |
| Capitalization Grants for Drinking Water State | | | |
| Revolving Fund | 66.468 | Not available | \$ 2,635,832 |
| Total U.S. Federal Environmental Protection Agency | | | <u>2,635,832</u> |
| U. S. Department of Housing and Urban Development | | | |
| Pass-through Programs From: | | | |
| West Virginia Development Office | | | |
| <u>Program Title</u> | | | |
| Emergency Solutions Grant Program | 14.231 | Not available | 72,317 |
| Pass-through Programs From: | | | |
| West Virginia Office of Economic Opportunity | | | |
| <u>Program Title</u> | | | |
| Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii | 14.228 | Not available | 231,582 |
| Total U. S. Department of Housing and Urban Development | | | <u>303,899</u> |
| U. S. Department of Justice | | | |
| Direct Programs: | | | |
| <u>Program Title</u> | | | |
| Public Safety Partnership and Community Policing Grants-ARRA | 16.710 | N/A | 115,141 |
| Recovery Act - | | | |
| Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government-ARRA | 16.804 | N/A | 13,606 |
| Total U. S. Department of Justice | | | <u>128,747</u> |
| U. S. Department of Energy | | | |
| Direct Programs: | | | |
| <u>Program Title</u> | | | |
| Energy Efficiency and Conservation Block Grant Program (EECBG)-ARRA | 81.128 | N/A | 12,118 |
| Total U.S. Department of Energy | | | <u>12,118</u> |
| TOTAL FEDERAL AWARDS EXPENDITURES | | | <u>\$ 3,080,596</u> |

N/A = Not applicable

The accompanying notes are an integral part of this schedule.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Section I -Summary of Auditor's Results

Financial Statements

| | |
|--|-------------|
| Type of auditor's report issued: | Unqualified |
| Internal Control over Financial Reporting: | |
| Material weakness identified? | Yes |
| Significant deficiencies identified that are not considered to be material weaknesses? | No |
| Noncompliance material to the financial statements noted? | Yes |

Federal Awards

Internal Control over Major Programs:

| | |
|---|-------------|
| Material weakness identified? | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | No |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with § __.510(a) of Circular A-133? | No |

Identification of major programs:

CFDA Number

Name of Federal Program

66.468

Capitalization Grants for Drinking Water State Revolving Funds

| | |
|---|------------|
| Dollar threshold used to distinguish between Type A and Type B Program: | \$ 300,000 |
|---|------------|

| | |
|--|----|
| Auditee qualify as a low-risk auditee? | No |
|--|----|

**MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Section II - Financial Statement Findings

Segregation of Duties

2012-01

CONDITION:

It was noted that the responsibilities for approving, executing, and recording transactions and custody of the resulting assets arising from the transactions were not assigned to different individuals.

CRITERIA:

Proper internal control dictates responsibility for approving, executing and recording transactions should rest with different individuals. Custody of resulting assets should also be assigned to individuals with no responsibilities in the above areas.

CAUSE:

The entity has not implemented proper control procedures to sufficiently segregate duties.

EFFECT:

Internal control structure elements do not reduce to a relatively low level the risk that errors and irregularities, in amounts that would be material in relation to the financial statements, may occur and not be detected in a timely manner.

RECOMMENDATION:

The Municipality should distribute among the accounting staff the duties of approving, executing and recording transactions to the extent as being economically practicable.

AUDITED AGENCY'S RESPONSE:

The Municipality is currently training additional personnel to complete segregation in the Finance Office. The Finance Director will work through the Police Chief to accomplish segregation of duties.

**MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Section II - Financial Statement Findings

**Failure to Submit Budget Revision to Appropriate
the Unexpended Balance - General Fund
2012-02**

CONDITION:

We determined during our audit that the officials of the Municipality of Fairmont failed to submit a budget revision for the General Fund to appropriate \$2,155,813 of the actual unexpended fund balance at June 30, 2011.

CRITERIA:

West Virginia Code §6-9-3 states in part that:

"...All unexpended balances or appropriations shall be transferred to the credit of the fund from which originally appropriated or levied whenever the account with an appropriation is closed."

In addition, a State Supreme Court decision stated that:

"...Any excesses or balances should be carried into the proper funds of the succeeding fiscal year and proper credit made therefore when levies are being laid for that year... Ireland v Board of Education, 115WV614, 177S.E.452(1934)."

CAUSE:

The Municipality of Fairmont failed to properly revise the carryover balance of the General Fund.

EFFECT:

The Municipality did not appropriate all funds available for expenditure.

RECOMMENDATION:

The Municipality should exercise proper budgetary practices.

AUDITED AGENCY'S RESPONSE:

We will examine West Virginia Code §6-9-3 and practice proper budgetary practices in the future.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA

CORRECTIVE ACTION PLAN

For the Fiscal Year Ended June 30, 2012

There were no findings at the federal program level; therefore, no corrective action plan is necessary.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2012

Status of Prior Year Audit Findings

There were no findings issued in the prior year.